

**Controlling the Uncontrollable?
Economic Transition and Elite Power in North Korea
and Vietnam**

By

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Abstract

This thesis comparatively examines the challenges of economic reform facing the North Korean elite. Is the North Korean regime willing to open the Pandora's box of economic reform? If so what does this mean for the country- both for Korean Worker's Party elites and the nation's impoverished population? It is argued here that realists skeptical of economic reform do not account for the positive incentives facing elites, such as privileged access to new economic assets. Within transitions theory, both Walder (2004) and Hellman (1998) have illustrated that communist elites can benefit, rather than lose, from gradualist economic reforms. This argument supports policies of engaging North Korea economically, and encouraging a gradual, elite-led, transition for the country. The logic of linking economic policy to security is based in liberal institutionalist theory of Keohane and Nye (2001). This emphasizes the power of socialization and interdependence to cause transformation, rather than military conflict or containment. Through analysis of Vietnamese and North Korean political economy, this comparative study makes the case that the elite-led path is possible in North Korea. However, the political will of elites to deepen reform is dependent on outside incentives, as well as the policy choices of its neighbours in Northeast Asia, and the United States. Consequently, facilitation of this process by policymakers in international financial institutions and their constituent donor countries is a key element in paving a path to peace for the DPRK.

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Abbreviations

DMZ	Demilitarized Zone
DPRK	Democratic People's Republic of Korea
IFI	International Financial Institution
KWP	Korean Worker's Party
USLC	United States Library of Congress
SOE	State Owned Enterprise
VCP	Vietnamese Communist Party

Acknowledgements

It is easy to get lost in the voluminous research on North Korea. Nuclear proliferation, human rights, great power politics, transitions theory, peninsular history and communist state politics are all major themes of relevance on the peninsula, each deserving of thorough examination. Teasing out *one* significant and understudied aspect of the DPRK was no mean task. I think however, that in the final analysis, I found a project that goes beyond a focus on barriers and challenges so common in this field, and starts to look at solutions. By comparing the DPRK with a ‘successful’ transition from central planning to liberalized markets I can test theoretical prescriptions about marketization and illuminate a very uncertain process taking place today. This project was destined to present significant challenges. Not only have I chosen to study one of the world’s last ‘closed’ states, but I’ve also elected to undertake a politico-economic comparison of two countries. I owe a significant debt to Dr. Paul Evans for his supervision of this long-overdue work. His thorough critiques, constructive suggestions and intellectual challenges have added depth and nuance to this thesis, and my understanding of the challenges of reform. I would also like to thank Dr. Brian Job for his advice and feedback on the final draft. Most of the ‘real work’ was not done at the university however- it progressed at home, and in many hours of pondering in coffee shops. For that I have to thank Francis Kearney for sustaining me at the library, endless patience and for many cups of well-prepared tea. My final thanks go to my parents, Joni and Ed MacArthur, for always encouraging me to ask the hard questions, and seek the links that bind diverse societies together.

Introduction

The survival of North Korea despite the collapse of communist political and economic systems across the globe raises a number of theoretical and empirical puzzles. What is it about the North Korean regime that has allowed it to survive in the face of global adversity? And how long can the regime stay in power? Economic reforms initiated following the death of Kim Il Sung raise the question of whether such reform will lead to political change in North Korea. For some North Korean scholars like Barry Gills, “the issue of reform in North Korea is... fundamental. Much of the future course of the Korean conflict and its ultimate prospects for a peaceful resolution depends on the attitude of Kim Jong Il’s government to economic reform and opening” (1996:251). It is this linkage between security, politics and economic reform which makes a study of the non-military aspects of North Korean security integral to establishing peace on the peninsula. This thesis examines the literature on North Korean reforms in relation to communist transitions in the post-Soviet era. Based on a comparison with Vietnam, it will suggest lessons for policymakers in international organizations interested in helping the Democratic People’s Republic of Korea (hereafter DPRK) achieve stable and sustainable growth.

Study of politico-economic change and DPRK security is important for a variety of reasons. First, whether or not one agrees with the aims and methods of the Kim dynasty, the regime’s resilience is impossible to ignore. While its former communist allies and neighbours in China and Vietnam reform their economic systems to integrate into the global economy, on the surface North Korea remains isolated- unwilling to change. Has the North Korean regime opened the Pandora’s Box of economic reform? If so what does this mean for the country- both for Korean Worker’s Party (KWP) elites and the nation’s impoverished population? And which

path are they following- the ‘big bang’ model of former Soviet bloc countries or the gradualist ‘market communism’ model of China or Vietnam? North Korea has survived war with the world’s superpower, the collapse of the Soviet Union, famine, economic stagnation and is now one of the last centrally planned Stalinist countries on the planet. Today’s elites there face a choice between continued isolation or unleashing the potentially ‘uncontrollable’ forces of a capitalist market system. The path is not yet clear, and has not been set, but is a deciding element of the state’s future trajectory.

Secondly, North Korea is important to the security of Northeast Asia. This region is highly militarized and rife with historical legacies of conflict and animosity. Significant inter-state conflicts exist between China and Taiwan, China and Japan, Japan and both Koreas. In addition to the state-level disputes, there is a sincere concern among North Korea’s neighbors about the possibility of millions of DPRK refugees flooding the region in the event of regime collapse. North Korea’s political trajectory of reform, collapse, or status-quo, also addresses a much deeper debate about the effects of liberalized markets on state power and security. There exists a longstanding debate in international relations regarding the role of economic change in mitigating conflict. This interplay between ‘hard’ security considerations and economic exchange is at the heart of economic reform’s importance to peninsular security. Furthermore, it stems from a major debate between realist and liberal political worldviews¹. If there is indeed a transformational effect of economic liberalization, South Korean and Chinese engagement can be seen as a bridge to peace and stability. However, if realists like Kenneth Waltz (1970) are right, and such a connection is spurious, or worse *fosters* more conflict, then South Korea’s policy may be nothing more than a bribe for ‘good’ behavior.

¹ These positions are exemplified for the realists in the works of Morgenthau (1978), and neo-realists in Mearshimer (2001), Waltz (1954). For liberals, see Bull and Watson (1984), and for the more recent variant of neoliberal institutionalism see Keohane and Nye (2001), and Mueller (1989).

For realists like Waltz (1995) and Mearsheimer (1995) economic changes are subordinate to political change. Economic considerations matter only as a function of the state's drive to increase its own power in the international system. States in this anarchic system are interested solely in maximizing their power, usually defined in military terms. Deterrence and alliance politics are two powerful tools for dealing with conflict in the international system. For realist Nicholas Eberstadt a 'hard-line' approach with Pyongyang, isolating the regime diplomatically and deterring aggression with superior military capacity, will best ensure security in the region. Interests are defined traditionally at the state level, with little attention paid to sub-state factions or debates. Employing this view, North Korean 'interest' is that of Kim Jong Il and elites close to him, rather than on a potential plurality of viewpoints within the country. In addition, realist theory focuses on zero sum competition. A loss of economic control for the current elite is a gain for their adversaries in Washington or Tokyo. Hence, without regime change in North Korea, any economic policy changes will be surface level only and support the current elite. Engaging the state is tantamount to appeasement as the rational, power maximizing interests in Pyongyang will not willingly enact policy to undermine their own position in society (Eberstadt, 2004).

In contrast, advocates of North Korean engagement suggest economic changes will empower new technocratic elites, thus allowing for policy shifts away from militarism (Kang 2004, O'Hanlon and Mochizuki, 2004). This belief stems from liberalism's, and particularly neoliberal institutionalism's, focus on interdependence and interaction effects in the international system. For liberal institutionalists like Keohane and Nye (2001), and Bull (1984), a shift towards an open market means more mechanisms through which interest maximizing bridges can be built, and communication increased. Through participation in

international institutions, multilateral bodies and non-military forms of co-operation, elites in North Korea may be socialized, over time, to reduce military expenditures as the benefits of economic cooperation increase. For example, should certain key groups in North Korean society (be they technocrats or military) benefit from the economic liberalization this will create a vested interest in this group to maintain and expand economic ties. In this way the costs to the regime of initiating aggressive actions are increased. Furthermore, over time as military hardliners trained in the Korean War era on both sides of the DMZ leave power, there will be a transition to a new elite group. An increasing number of economic actors in the regime will benefit directly from external economic ties and are likely to support—and lobby for—stable bilateral political relations. Change in the security situation is possible in the liberal view, through a shift in the preferences of those in power. If a more attractive option than military conflict is available, and communicated through new institutional channels, rational self-interested elites will elect to shift policies. Economic integration with the international system, in other words, creates vested interests in peace (Hirschman, 1945; Russett and O’Neal, 2001).

Policies engaging a target state through economic reforms present an opportunity for stakeholders to affect traditional security issues incrementally through ‘back door’ methods. Both South Korea’s current policy towards North Korea, and US policy toward China through the 1990s, have employed liberal institutionalist logic and can claim success (Johnston and Ross, 1999, Kim 2002). Consequently, for peaceful integration of North Korea to take place, a change of political regime is not necessarily a logically prior step for liberals. Co-operation can benefit both elites in power and gradually introduce new players into foreign policy choices. With the ‘peace dividends’ of institutional co-operation, states can then theoretically focus

more resources on economic development and diplomacy. Finally, for liberals, the state is not the homogeneous black box it is for realists; it is comprised of diverse actors and interests vying for advantage. By presenting incentives to a state that increase the relative benefits of co-operation, economically minded technocrats and foreign policy doves are in a stronger position to advocate their policies. The formation of these internationalist coalitions is a key component of the transformational effects of interdependence.

This thesis uses the North Korean and Vietnamese cases to test these liberal prescriptions about economic reform's effects against the more skeptical views of realists. I build a case for a North Korean soft landing based on empirical evidence of shifting regime policy, and the facilitating role played by the international community in easing two other transitions: China and Vietnam. North Korean reforms are reversible. Without aid, diplomatic contact, and technical support, reforms, even elite-led ones, have little chance of success. A realist policy on the peninsula closes this door before it has been fully opened, at great cost to all parties in the conflict.

North Korea interests many scholars based on its position at the periphery of politico-economic typologies and scales, and its uniqueness. Prior to the famine, health care and food were widely accessible, and it has surprisingly high literacy rates for such a poor country. This is not the picture one expects to see in a 'despotic dictatorship'. Where the regime is located in political typologies is highly dependent on one's ideological orientation. It is classified for purposes here as a communist state, characterized by deep involvement of the ruling Korean Workers Party in all aspects of life. It is the only country of its kind in the world, nuclear armed, isolated, decidedly *different*. Because of this it is rarely studied in comparative context.

What then can be gained from studying North Korea comparatively? The answer lies in the nature and logic of comparative politics.

My question above echoes one that has plagued scholars since Aristotle's *The Politics* in Ancient Greece. It is further developed in J.S. Mill's work on the comparative method in 1868. What constitutes a valid comparison in the social sciences? Comparison of units as large and complex as states is inevitably fraught with challenge. Such an aggregated unit of analysis is a product of many competing social trends, movements, structures and even individual identities. Because of this scholars are criticized for assuming causal homogeneity given the very diverse characteristics of individual countries. How can the development of markets in China have a similar causal effect to that in Mexico, or Vietnam, North Korea or any other country that is the aggregate of long chains of historical material and ideational development?

There are processes affecting states and peoples all over the world, even though countries and events are separated by unique influences and characteristics. Some common examples are democratization, market liberalization, cultural globalization, and urbanization. The challenge for comparativists then, is to assess how these broader processes work- the mechanisms and manner- *given* differences between countries. The reason for doing so is simple. An assumption of complete heterogeneity precludes drawing 'lessons' from any previous case. It assumes that each time an event such as marketization occurs, it does so uniquely preventing scholars or policymakers from retooling broad theories of democratization or marketization which often drive policy. If North Korea is indeed 'unique' and cannot be compared, how can policy be designed to fit its unique characteristics? Surely the difference is one of degree. By attempting, carefully, to categorize and research the various similarities and

differences one can start to build larger broader theories that are ironically *more* inclusive of heterogeneous aspects of the social world.

To find a balance between recognizing differences and testing or modifying theory political scientists have suggested a number of solutions, most centering on the construction of typologies (Munck, 2004; Ragin, 1987). For example, when studying economic change and authoritarian political systems one compares how such changes have affected states which, though culturally or geographically different, have key factors in common. In this example, relevant criteria might be similar ideological systems, levels of external threat, similar levels of development, or other variables which directly influence the progress of change. Vietnam resembles communist North Korea in a number of these areas; hence, the comparative method is a powerful tool for studying changes in the DPRK.

The experiences of countries like China and Vietnam provide valuable data on the distribution of benefits in liberalized versus planned markets as well as the purported link between marketization and regime change. Specifically, it has been suggested that for communist states in the post-Soviet era, Asian pragmatism and nationalism have replaced ideology as a driving force for elites (Chan, 1999; Cheek, 1998). This development enables communist parties to walk a fine line of legitimacy between capitalist economics and communist politics.

Though there are geographical and cultural links between China and the DPRK, the Vietnamese alternative provides a better comparison for a number of reasons. Like North Korea today, Vietnam had a tumultuous relationship with the United States. It is a relatively small Communist state resisting outside pressure. Like Korea, Vietnam was divided. Vietnam and North Korea also have similar size populations, in contrast to China with its billion-plus

citizenry. Both countries have fierce traditions of nationalism forged in the experience of colonial rule. Nationalist heroes, Vietnam's Ho Chi Minh and the DPRK's Kim Il Sung, formed established communist governments and led to cults of personality which persist to this day. The traditional and intellectual legacies of both countries were overlaid by Marxist ideology that linked them with the communist bloc during the Cold War but both were differentiated by deviations from communist orthodoxy as seen by the Comintern. Furthermore, both have relatively small markets compared to their shared neighbour, China, and have to navigate a post-Comintern world order within which they have much less bargaining power. Finally, Vietnam and North Korea are also relatively homogeneous ethnically and started their reforms from a very low level of economic growth. This is true even though the DPRK historically has been significantly more industrialized than Vietnam, as two decades of economic crisis eroded its former level of development.

North Korea and Vietnam are valuable comparisons as much for their differences as their similarities. Where the DPRK has remained isolated, Vietnam is pushing for WTO membership by the end of 2005. Where North Korea is still but half of a divided country in constant conflict with Washington, Vietnam normalized relations with Washington in 1995 and the North ruled over a unified state as of 1976. North Korea is more urbanized and industrialized than Vietnam and the latter is more integrated with the international community. Despite these differences, the Vietnamese model, for reasons of size, shared history of colonization and one-party rule provides a useful precedent for the DPRK. It demonstrates the mechanisms through which communist party elite manage legitimacy, ideology and free market economics in a process of reform- a model of increasing interest to North Koreans.

Two very important conceptual issues are debated by scholars of North Korea, and are of particular relevance to this thesis. Each points to an alternative configuration of the DPRK problematic. The first issue questions the focus on economic reform, and the second, the nature of reforms in North Korea.

The focus of this thesis is on a non-military aspect of North Korea. The DPRK is typically problematized almost solely for reasons of military security, usually with reference to nuclear proliferation and conventional forces deployed along the DMZ. My analysis does not underestimate the importance of resolving the nuclear crisis on the peninsula. On the contrary, it is a requisite of attracting the international aid and technological support required for the significant economic reconstruction needed in the DPRK (Babson, 2003; Hayes, 2001). As long as North Korea continues to use its nuclear capability to counter Washington's threats of regime change, progress in economic reform and development will remain stunted. However, to relegate non-nuclear study and analysis to the 'end of the line' mistakenly underestimates significant interactive effects between the military and economic aspects of North Korea's insecurity. Simultaneous work on both aspects of the conflict helps explain inter-Korean relations and the dynamics of multilateral forums like the Six-Party Talks. Significant progress in one will likely positively affect the other, and vice versa.

The extent of reform in North Korea is also a contentious topic. Studying a relatively closed society like North Korea is a challenge, as estimations of longevity or success of reform are often ideologically prescribed. For example, price liberalization can be seen by liberal engagers as evidence of regime flexibility and reform (Kang, 2004) and by realist hawks as ad hoc, reversible survival tactics (Eberstadt, 2004). There is a potential spectrum of changes outlined above which differentiates 'reform' from surface changes in economic policy. One

suggests a genuine shift in state policy and thus calculations, the other sees confirming evidence of regime intractability.

There are two ways to distinguish between these two differing conceptions of empirical evidence which will be examined throughout this thesis. First, if the policy shift creates a population of ‘winners’ able to mobilize and advocate for its survival it is more irreversible. Conversely, if it leads to the sidelining of a powerful and organized group of ‘losers’, it is more likely to be a temporary shift (Hellman 1998). For example, in the Vietnamese case, price liberalization in the agricultural sector increased wages significantly for farmers, but did not produce any significant income losses to elites as they retained control of large State Owned Enterprises (SOEs) (Dixon, 2004). Consequently, the policy reform produced positive feedback for further reform.

A second measure to differentiate an ad hoc change from a structural reform is the context of its implementation. If the change is a result of significant systemic pressure, such as a large generational demographic shift, or geopolitical changes, it is more difficult to retrench previous policy (Haggard and Kaufman 1995). Again, for Vietnam the collapse of the Soviet Union, combined with a generational shift from war-era elites made a return to Stalinist social planning untenable (Karadjis 2005). For liberal institutionalists, membership in international bodies provides another structural constraint on repealing reforms. Informational exchange, less prevalent before the state joined the UN, WTO or similarly structured body, provides elites with access to alternatives and an institutionalized forum through which expertise can be shared. All three above factors suggest that in certain cases reforms are, to a degree, self-perpetuating. When implemented, they can change the calculations of actors, and a policy retreat may prove untenable as the material conditions for previous policies may have eroded.

This discussion of the ‘irreversibility’ of reforms does not necessarily suggest that they will undermine the current regime. Indeed, in studying transition economies, both Walder (2003) and Hellman (1998) suggest that partial reforms are often elected by communist era elites to reinforce their power while shifting the countries’ economic system. Reform then, does not necessarily equate with regime change. For liberals this is not a significant problem as reforms initiate a process of linkages and feedback that gradually shifts regime preference, as discussed previously. It is the increased international linkages and capital available for development which initiates change. For realists, reform which does not destabilize the regime has little hope of affecting broader security. As a result the term ‘reform’ is treated skeptically by scholars like Eberstadt (2004). Furthermore Eberstadt (2002), Oh (2004) and Noland (2003) are doubtful that the ‘changes’ they observe will deepen as “economic exchange” with the “capitalist” world... is explicitly and officially regarded by Pyongyang as a process that unleashes powerful, unpredictable and subversive forces — forces that ultimately erode the authority of communist states” (Eberstadt, 2004:39). This perspective is prevalent in realist dominated US policy circles involved in the nuclear standoff. Those adopting this skeptical position on reform tend to find confirming evidence in the policy reversals of DPRK conservatives, such as banning cell phones in the capital and periodic shutdowns of farmer’s markets. In addition, this perspective was supported by Pyongyang’s unwillingness to call their ‘economic improvement measures’ reform. This fear of the erosion of communist power by market forces was present within both the Vietnamese and Chinese experiences as well (Cheek and Lindau, 1998; Chan, Kerkvliet, Unger, 1999). This prompted them to innovate hybrid systems of ‘partial’ reform, that now present an alternate model for communist elites in North Korea, and Cuba (Ratliff, 2004).

In June 2003 DPRK state publications used the term ‘reform’ as well as a shift to ‘practical socialism’ focused on economic development (KINU, 2005)². This shift in terminology within the regime, as well as the numerous policy changes enacted since 2002 described in Chapter one seems to support the liberal position that Pyongyang elites are increasingly committed to systemic reform. Furthermore, Kang points to these reforms as well as the regime’s steadily increasing efforts to study the transitions in China and Vietnam as proof of this shift (2004:15). China and Vietnam are examples of ‘partial’ reforms which were deep enough to engage each country with the international system, but not comprehensive enough to erode regime power. There have been numerous reforms made by North Korean leaders starting in 1994 and culminating in a broad package in 2002(KINU, 2005): they have encouraged foreign investment through the development of special economic zones, allowed South Korean tourists to visit the North. O’Hanlon states that in 2003 they “liberalized prices, increased wages, and began to tolerate limited private agriculture as well as an expansion of farmers markets where goods can be bought and sold outside the rigidities of the command economy” (O’Hanlon, 2003a). As more reports from the World Food Program (2003, 2004) come out of North Korea the previous skepticism over reform gets harder to sustain. In 2004, the Economist states that “there is now no doubt that economic reform, radical by past standards if not by today's global norms, are under way.” The article goes on to outline some support for this claim: “the markets that since the 1996-98 famine have increasingly supplanted the old state distribution system are receiving official acknowledgement: formerly off limits, they are now on show to visitors. More officials are being sent abroad for training in market

² This shift is also a matter of debate, not yet widely acknowledged. In a June 2003 editorial the Korean Central News Agency (KCNA) used the term ‘Kaehuk’ (reform) as opposed to ‘Kaesun’ (improvement). Notably, the journalist was not punished, as is common when statements contravene the regime’s official policy. This increasing emphasis on ‘radical change’, now with the actual use of ‘reform’ is a significant change from previous policy. For more on this issue see Brossel (2004), Park (2005), Frank (2005) and Savage (2005).

and transition economics; Vietnam, significantly, is one such destination” (Economist 2004).

This assertion of the reality and importance of reform has been echoed repeatedly by Bradley Babson (2003) at the World Bank, Tim Savage (2005) at the International Crisis Group, and scholars Smith (2005), Frank (2004), and Weingartner (2002).

This thesis proposes that reform *is* occurring in the DPRK and that a distinction between whether it’s ‘real’ or not is illusory and obfuscates the complex forces that initiate and propel change in the country. The regime has not only shown an interest and willingness to reform key aspects of their economy, but has done so in response to geopolitical and geoeconomic pressures which show no signs of abating. Given the empirical reality of reform in the DPRK a better analysis is how reversible they are and whether there is significant pressure to do so on the current regime. The primary objective of the current regime in Pyongyang is to stay in control, so it will only support policy if they don’t threaten its power. To convincingly show or to confirm that there is indeed such a possible “safe transformation” is an important contribution. To this end, prescriptions are drawn from those with experience in transition economies: scholars of specific transitions such as Fforde and de Vylder (1989) in Vietnam, Hellman (1998) in Eastern Europe, and those in international financial institutions like Babson (2000, 2001, 2003). Leveraging the knowledge and experience of other paths and situations may provide key insights in the way forward for international policy towards the DPRK which finds itself in crisis on numerous fronts: military, economic, humanitarian, and political. Contrary to reform skeptics, the Vietnamese experience demonstrates a path for elite retention of power and consequently elites in North Korea stand to benefit rather than lose in such a system. Elites were able to control this ‘uncontrollable’ process well enough to preserve their status in society and thus the impetus for reform. Studying the DPRK reforms

comparatively will not only help us learn about the North Korean regime, but also the expected transition path. With this information international organizations may determine policies and tailor aid accordingly.

Chapter One addresses the domestic and international factors in the DPRK that are influencing the reform process. This includes a description of the current political and economic conditions within the country. Particular emphasis will be placed on the elite structure within the state and factors which may deepen or block economic reform. Chapter Two focuses on Vietnam, tracing the political and economic transition in that country. It is in this section that the mechanisms through which elites retained power and indeed benefited from transition will be outlined. Chapter Three analyses the Vietnamese model in the DPRK context. Given the supposedly unique nature and culture of the DPRK, do they possess the same tools that were leveraged by the Vietnamese Communist Party (hereafter VCP) to maintain power in transition? Or is the structure of North Korean power significantly different so as to preclude such a shift? The chapter looks at the challenges and benefits of the *Doi Moi* model for the DPRK. Finally, the conclusion points to some international policy responses that would facilitate positive developments in North Korea's political economy. It also analyses the implications of this study for security debates on the linkage of 'hard' security topics to 'soft' economic ones.

Chapter One: The Political Economy of North Korean Economic Reform

A study of change in political and economic systems must be grounded in their historical contexts. Thus, North Korean economic and political change must first be located in the rich and tragic history of the Korean peninsula.³ This will constitute the first section of this chapter. In the second, the economic reform that has taken place within the Korean system to date- both in terms of structural change and its effect on the population is outlined. Section three examines the DPRK political structure, particularly the elites in the context of the preceding historical and economic factors. The question is not ‘are they rational’⁴, but rational given what pressures, constraints and opportunities? Each of these sections speaks to a different influence on the progress of reform and political change in the country. The first deals with the cultural and historical factors shaping the ideas and structures of North Koreans. The second addresses the material economic changes and challenges, and the third sketches the power dynamics and mechanisms of coercion and influence shaping the reform trajectory in the country.

HISTORY AND CONTEXT OF REFORM

The Korean Peninsula is the geopolitical epicenter of East Asia. Five of the top fourteen economic powers and four of the ten largest armies in the world are within six hundred miles of each other (Orcutt, 2004:2). Seoul and Pyongyang are 119 miles apart, separated by the most heavily armed area on the planet. The Korean demilitarized zone (DMZ) divides two countries that are not at peace, but rather co-exist under a 1953 armistice. The magnitude of the

³ There is a growing English-language literature on the peninsula’s long history. For reference see Oberdorfer (1997), Bleiker (2005), Cumings (2003).

⁴ A debate seen often in the press (Economist, 2004; Joongang Ilbo, 2001), but also dealt with by Cha and Kang (2004).

fault lines linking the United States, China, North Korea, South Korea, Japan, and Russia are enormous and span political, cultural, economic, and military categories.

The history of the Peninsula is long and conflicted. Pre-partition Korea was one of the oldest countries in the world, with trade and diplomatic traditions stretching back to the Goguryo period in the first century BC. The culture has deep and unique traditions forged in the shadow of both Chinese and Japanese dominance. Korea has been at times the conqueror, but particularly in the last 100 years the peninsula has been occupied by one great power after another. From the patron-client relations with China to the brutal colonization of the peninsula by Japan from 1910 to 1945 and the great power partition along the 48th parallel- the history of the Koreas reads like a textbook on colonialism and power politics.

The Cold War had a formative role in today's conflict on the peninsula. The decade immediately following partition was the tensest of the Cold War and western 'containment' policy. With American support for South Korea and communist bloc support for the north, the two halves of this ancient country were divided along economic and ideological lines. The capitalist South continued to benefit from export oriented development supported by Washington, as well as military assistance in conventional and nuclear terms. Through the 1970s North Korea was outperforming her Southern neighbour. It was more developed, more industrialized, with a rival military power even though this success was dependent upon heavy subsidization by its communist allies. It was structurally dependent on Soviet and Chinese 'aid' and communist block exchange which is contributing to today's crisis of opening and reform. North Korea's Juche (independence) ideology was never practically self sustaining, despite its nationalistic emphasis. Consequently, the economic decline of the Soviet Union was echoed and amplified in that of North Korea. When the Soviet Union collapsed it left the

United States as the unipolar power in the region- continuing its patronage of capitalist South Korea, while the North found itself increasing abandoned first materially and then ideologically by former allies around the world. The normalization of Moscow-Seoul relations in 1990 and Beijing-Seoul relations in 1992 cemented the breakdown of the old Cold War alliance systems in the region.

In the last two decades, with a rising China and a declining post-Soviet Russia, along with a rising South Korea and declining North Korea, significant shifts in power have occurred in this region. The forces of economic and cultural globalization in the 1990s have transformed both the context and the conditions in which Northeast Asian regional geopolitics are played out. From this perspective on post-Cold War Northeast Asian international relations, geopolitics is no longer the sole focus, now coexisting and even competing with geoeconomics and geogovernance (Kim 2002). For North Korea, it is no longer a matter of navigating between the Soviet Union and China, or focusing military preparations on a war with Seoul. Just as the DPRK's allies have realigned their economies to an international capitalist system, its oldest adversary, South Korea, has undergone a significant shift in foreign policy. The US-ROK alliance is under stress, and ROK-DPRK co-operation is at an all-time high (Kim, 2005).

The DPRK is a country facing three crises. There is the oft-mentioned and discussed national security crisis which centers around what used to be a military conflict with South Korea, but is increasingly seen as primarily a conflict with Washington⁵. Threatening posturing, nuclear developments and conventional military deployments all serve to heighten its impact on the country. There are also two other types of crises for the North Koreans, both

⁵ For a discussion of this see the ever growing work of scholars, journalists and South Korean politicians (Koh, 2004; Kang, 2003; Cummings, 2003; Bong, 2004) who see US policy towards North Korea as undermining peaceful relations on the peninsula. The counter argument from members of more conservative (formerly pro-Japanese) Korean parties, continue to see Washington as a necessary component of defending against a hostile North Korea (Economist, 2004; Moon, 1999).

interlinked with the first: economic and humanitarian. The economic crisis was brought on by a combination of international power shifts and DPRK addiction to foreign subsidies from the communist bloc. More recently there has been concern expressed about its dependence on foreign aid (Kim, 2003) and now international aid (Kim, 2005). The third crisis is humanitarian, and often gets the least attention from scholars or policymakers. The population of North Korea is isolated, poor, and facing continuing food shortages. These problems are exacerbated by the country's extreme isolation from the international community, both economically and politically. KWP elites are in a difficult position. To stimulate the economy and address this last crisis through economic reform may unleash the 'uncontrollable' process Keohane and Nye (2001) predict, ultimately undermining the regime. The military spending from the first crisis interlinks with the collapse of the communist economic system and humanitarian crisis. This has resulted in efforts to reform the North Korean economy.

ECONOMIC REFORMS IN THE DPRK

North Korea is one of the last examples of communist centralized economic planning and constitutes a blank space on a satellite picture of the world. When satellite photos from space are taken at night most countries in Northeast Asia are lit by city lights. North Korea is the country missing from this international picture. This fact is representative of the country's isolation. Where the rest of the communist world has linked itself with a capitalist-driven international financial and trade network, North Korea remains conspicuously absent from the picture. North Korean elites have positioned themselves and their country in an increasingly

tenacious position, afraid to open the package for fear of the Trojan horse of western capitalist development⁶.

North Korea became an independent state in 1953, and has operated a rigid centrally planned, or "command" economy based on that developed by Stalin in the USSR. Industry and agriculture are planned on a five-year basis, all farms are collectivized, volume is praised over value and most foods and goods are rationed. North Korea's ideological commitment to economic planning based on self-reliance is no longer comparable to that of any other Asian communist system. After Mao's death Deng Xiaoping undertook Chinese economic reform in 1978. Following this and Soviet reform in the 1980's Vietnam launched its *Doi Moi* (economic renovation) program. By contrast, North Korea has, until recently, maintained its rigid ideological commitment to a planned economy. With the end of aid from its former communist allies on preferential terms, particularly crude oil from China and the Soviet Union, the North Korean economy began to decline in the 1990s. The economic difficulties reached a critical point as natural disasters hit grain crops in 1995.

A key aspect of the economic collapse is the amount of money that the regime pours into the military economy due to the security crisis. North Korea's hostile relations with the world's superpower, as well as Japan and, up until recently, its southern neighbor, have contributed to an insecure mindset in Pyongyang which leads to a massive distribution of resources skewed towards the military. With this amount diverted away from food, infrastructure and basic needs, 'military first' in North Korea has come at an incredible cost. North Koreans might point out however that without the massive conventional

⁶ The term 'trojan horse' comes from a North Korean television broadcast describing China's "opening" as a "Trojan horse tasked with destabilizing socialism" following Kim Jong Il's January 2001 return trip to China (Kim 2001).

military and a nuclear ‘deterrent’ (Kang, 2003) there would be no Kim regime, or communist North Korea.

In 2002 the regime announced a series of comprehensive economic reforms (see Table One). In order to attract more foreign investment, North Korea designated three special economic districts in Shineuiju (September 2002), Mt. Geumgang (October 2002) and Gaeseong (November 2002). Shineuiju is no longer functioning due to controversy over its management with China, but the other two continue to develop. Pyongyang also partially ended rationing, reformed the wages and pricing system, and introduced limited markets. Kang argues that “these reforms are significant. It is one thing to declare a special economic zone in the northeastern region of Najin-Sonbong, and far more significant to affect the daily lives of every citizen by introducing market reforms” (Kang and Cha, 2004: 102). The effects of this were drastic. French illustrates: “retail prices shot up - rice by 55,000 per cent, corn 5,000 per cent, electricity 143 per cent and public transport fares 2,000 per cent - but average wages increased by just 1,818 per cent - from 110 won to 2,000 won (US\$22) per month” (2005). The 2002 reforms also allowed private farmers' markets to expand - to provide more goods for the consumers this monetary liberalization had created. Gaesong and Shineuiju investment zones used foreign investment to create new economic ventures.

Table One: North Korea's Economic Reforms

Category	Major Details
2002	1) Implementation of the “Economic Management Improvement Measures” (July 2002 reforms) -increase in prices (25-fold), wages (18-fold) -raised the exchange rate to a more realistic level: from 2.2 won/dollar to 153 won -abolished the rationing system *continued issuance of the ‘food supply card’ to prevent hoarding of grains by stores. -expanded management autonomy in enterprises (decision-making powers transferred from party executives to managers) -increased the size of private tilling allowed by farmers from 30-50pyong to 400 pyong 2) Expanded special economic districts (September to November 2002) -designated special districts in Shineuiju, Kaesong and Mt. Kumgang
2003	1) Reform measures applied to the commercial distribution sector (March 2003) -farmers market transformed into general markets *scope of transaction items expanded (agricultural goods→industrial goods) -state-run stores: management rights transferred to institutions and enterprises
2004	1) Detailed reforms in the agricultural and enterprise sectors (January 2004) -implementation of the ‘Family-unit Farming System’ *farmland allocated based on the unit of two to five households, with autonomous farming -pilot implementation of ‘reforms in enterprises’ *lowered government levy for enterprises, increased cash flow limit, authorized wage hikes according to individual performance. 2) Improved conditions for inducing foreign investment -joint venture investment by foreign capital for large-scale shopping centers and department stores permitted -October 2004: minimum wage was lowered: from 100euros to 30 euros; reduction of taxes, permitting individual investment (including banks) by overseas Koreans in areas other than Najin-Seonbong and granting them mine development rights is being considered.

Source: Kim Young-Yoon (2005:55)

In addition to the price restructuring there have been a number of key organizational changes within the DPRK. For example, the Committee for the Promotion of Economic Cooperation under the wing of the Ministry of Trade was upgraded as an organization directly under the cabinet in May 2004. Since July 2002, North Korea has strengthened the management autonomy of enterprises, including strengthening the authority of the managers and reducing the scale of government planning. North Korea restructured relevant ordinances including the enactment of the “Accounting Act” in 2003, and recruited those in their 30s and 40s with professional expertise as managers of enterprises. The number of party members

involved in the daily business of running State Owned Enterprises (SOEs) was reduced in the 2002 reform package, as well as an upgraded economic component in the selection of up and coming bureaucrats in the KWP (Kim, 2005). Taken together, these generational and organization changes suggest potential positive feedback loops. Paul Pierson (2000) describes how these loops, over time, self-reinforce a process of change. He also discusses the concept of path dependence, where key structural changes in economies or elites have long chains of effects making it difficult to switch back to an alternate ‘path’. This suggests the changes in North Korea described above may encourage further reform within the DPRK.

A further development is the regime’s characterization of these changes. The DPRK government, once hesitant to use the term ‘reform’ did so in June 2003 (KINU, 2005). Finally, in September 2005 North Korea asked the United Nations’ World Food Program (WFP) to end its emergency food aid by the end of this year and change to development aid. This last development suggests an awareness of the deep structural issues plaguing the economy and the incompatibility of Juche with the present system. Hence, increasingly reform debates between liberals (O’Hanlon, 2001) and realists (Eberstadt, 2004) focus not on *if* reforms, but whether they’re deep and irreversible or surface level and easily reversed. If the former, the implication is that reform may eventually ease security tensions on the peninsula through a shift in regime preferences and social structure (Kim, 2004). ‘Deep reforms’ are indicative of a regime willing to follow the course of reform. If the latter, ‘shallow’ economic reforms are implemented, Eberstadt suggests they are ‘epiphenomenal’ and a product of Pyongyang’s current security calculations rather than a more significant shift within the preferences of the regime (Eberstadt 2002).

To differentiate between the two, both structural changes and cost-benefit calculations must be taken into account. Structurally the DPRK economy is unsustainable, and war era elites are being replaced by younger cadre members. Further, as noted above, geopolitical shifts have been favourable, placing South Korea and China in a supportive policy positions and willing to give near-unconditional aid. Cost-benefit calculations of elites will also affect their reform course. Hellman (1996) and Walder (2004) have developed theories of ‘partial’ reform and the benefits this brings to communist elites in transition. Walder notes that elites in states with a strong coercive apparatus and concentrated assets benefit the most from such reforms. They are considered ‘partial’ because political control of state enterprises and major industry links are maintained even though smaller industries and sectors are privatized. Elites thus win from reform and continue to support it, making the process more difficult to reverse. The ‘losers’ in such a situation who would benefit from reversing reform would be members of the general population. They are unable to extract economic rents for personal gain as elites are, and are removed from the mechanisms of power. In this situation a movement to reverse reforms is unlikely to emerge. Unlike the decentralization of Vietnam’s system North Korea is heavily industrialized and wealth is more concentrated, fitting Walder’s characterization. Furthermore, the coercive apparatus in the country is strong.

There are indeed signs that North Korea’s poor are the relative losers from current reforms. Food is available at farmers markets, but at prices ordinary people cannot afford. This effective legitimization of private farming and smuggling across the border from China may have increased the availability of goods to the elite - those whose wages were protected or had access to foreign currency (Smith, 2005). For most ordinary North Koreans, the end result of the reforms was further impoverishment and the eroding of any savings they may have been

able to build up. The latter is important because it addresses both the willingness and ability of political elites to support change.

The issue of regime legitimacy and stability is a further aspect of elite willingness to deepen DPRK reform. In Kim Jong Il's speech on the 'Light Industry Revolution', which was delivered to the Central Committee of the party in February 1984 he stated that "If the rice bowl remains empty, people will not believe in the superiority of socialist institutions and socialist patriotism" (Kim, 2003). The legitimacy of the state is publicly linked with its economic performance. Without it, stability remains elusive as the state needs to resort to more and more costly repressive measures to retain control of the population. In fact, one of the key differences between the former Soviet Union 'model' and that of China and Vietnam was that the communist parties in both countries used economic growth as a support for legitimating the perseverance of their party's control. This was possible because the VCP and CPC were strong going in to their respective transitions (Walder, 2003; Nee and Matthews, 1996). Communist legitimacy in Eastern Europe was eroded *prior* to economic liberalization which contributed to the implosion of regimes there. For economic reform in the DPRK this potential implosion is critical for political actors' calculations to either deepen changes, or 'muddle through'. There are both positive and negative signs of whether reforms will deepen. Positive developments in inter-Korean relations and generational changes in Pyongyang elites are shifting structural factors that provide positive feedback to continued reform. But there are still political factions within the DPRK tied to the old system of economic organization and legitimization.

REFORM POLITICS IN THE DPRK

Categorizing North Korea politically is a complex challenge. Those in the regime routinely refer to the state as ‘socialist’ (Kim, 2001). They also cite the democratic-centralist practices of party elections and congresses as evidence to this effect. In addition, provision of free health care, education, and other social goods are seen as a further support to this assertion. Vietnamese elites, likewise, cite a commitment to socialism rather than communism (Fforde, 1999) despite the latter’s inclusion in the party name. Regardless of this, external observers from the World Bank to South Korea (Kim 2003) and the US (Eberstadt 2004, Noland 2000, Cha 2004) define North Korea as a communist state. Indeed, for them, it is perhaps the last ‘truly’ communist state in the world, excepting only Cuba. As China and Vietnam have modernized and liberalized their economies, tight control over economic forces has necessarily loosened. This has eroded one of the main distinguishing characteristics of communist states, namely government ownership of the means of production. However, the state in both countries still owns a high proportion of productive assets compared to those in western liberal democracies, and retains political controls on the media and political mobilization. As such, Vietnam and China are authoritarian, one-party, but not necessarily communist, states⁷. This is based on a political typology categorizing regimes by degree of authoritarian control as well as driving ideology. North Korea is certainly one of the most centrally controlled one-party states in the world and by this definition may deserve a ‘communist’ state categorization. Given the competing characterizations of both Vietnam and North Korea this thesis refers to them as ‘communist states’ based on the centralization of political power. However, where

⁷ There is a great deal of debate regarding the classification of regimes, particularly communist ones. For more on this see Foster-Carter (2001), Furet (1999), Kornai (1999). The authors illustrate further distinctions between the usage of the term and contemporary applicability to existing states.

references are made to specific policies of the regime, the term ‘socialist’ is used particularly with reference to policies on equitable distribution of goods, education and health care.

This one-party state’s regime is centered on one man- Kim Jong-Il. He is simultaneously Chairman of the National Defense Commission, General Secretary of the Korean Workers Party and Supreme Commander of the Korean People’s Army. According to Kongdan Oh Hassig “what really matters within [North Korean politics] is not so much an individual’s schooling, personal achievements, job, position within society, rank within the military, etc. but how close- physically and emotionally- that individual is connected to Kim Jong-Il” (Oh, 2004:29). He, as the heir and son of the country’s liberator, intellectual father and hero of the Japanese resistance both in China and Korea, is not only the political heir of the regime but the intellectual heir of his father’s legacy- which poses a special challenge of legitimacy. As he is a direct link to Kim Il Sung he must carefully navigate and frame deviations from central planning and Juche ideology within a context of state control and necessity. This means balancing reform measures carefully against ‘old guard’ hardliners in the military opposed to ‘pragmatic’ socialism (Mansurov, 2004).

North Korea is a stratified society with Confucian roots and superimposed, Stalinist-style, communist planning and party apparatus. At its core is the Juche ideology which presents North Korean independence from the capitalist world as the foundation and overarching goal of society. With this as the guiding ideology the political elite risk legitimacy in ‘opening’ the DPRK economy to interaction and interdependence with the capitalist world. Chinese and Vietnamese elites today are dealing with the inherent contradiction this opening, as communist parties guide unabashedly capitalist developmental paths. North Korean elites

who have long criticized their former ideological allies are finding themselves faced with the prospect of stagnation and collapse, or reform.

The ruling elite include Political Bureau members and secretaries of the KWP, Central People's Committee members, members of the State Administration Council, and members of the Central Military Commission and the National Defense Commission. Because overlapping membership is common in public office, top ranking office holders number less than one hundred (Hassig, 2004). Influence and prestige within the party power structure are directly associated with the rank order in which the members of the Central Committee are listed. Key posts in party, government, and economic organs are assigned; higher-ranking Central Committee members also are found in the armed forces, educational and cultural institutions, and other social and mass organizations. Many leaders concurrently hold multiple positions within the party, the government, and the military (KINU, 2004). The party directs national purpose, priorities, and administrative hierarchy. It is the central coordinator of administrative and economic activities at the national and local levels. Through its own organizational channels, which permeate all government and economic agencies, the party continues to oversee administrative operations and enforce state discipline. Without exception, key government positions are filled by party loyalists.

Alexandre Mansurov and Katy Oh describe a North Korean 'black box' which has political factions at multiple levels. For Oh, first generation leaders:

feel threatened by superior U.S. military capabilities and talk of regime change. On this issue, they are allied with hardline military leaders who argue the need for nuclear weapons as a guarantee for regime survival. They are opposed by technocrats, many western educated, who see the benefit in negotiating away North Korea's nuclear and missile programs to pave the way for a new relationship with the United States and other regional players that will ensure the regime's survival and create a better environment for economic reforms (2004: 24).

This description lends support to the claim by liberal ‘engagers’ that there are diverse groups within the Pyongyang elite, competing for policy footholds. From defector accounts, both scholars have documented both institutional and generational splits. In the former, foreign policy diplomats and moderate economists differ on prescriptions from the military, security and propaganda departments. Furthermore, distinctions are made between ‘ideologues’ and ‘pragmatists’, rather than hawks or doves. Oh points to further splits within institutions. Interestingly, within the military “the senior leadership appears to be more willing to support economic and foreign policy reform efforts than commanders at lower echelons”(2004: 24). This observation, contrary to the assumption that military elites are hostile to change (Hassig, 2004) may reflect appointment choices of Kim Jong Il, or generational changes within the elite.

The regime is held together by a number of systemic factors. This is in part due to a historically conditioned suspicion of the outside world which is reinforced by contemporary security threats from the U.S., Japan, and South Korea (Mansurov, 2004). Threats of regime change from the U.S. in particular, provide a focal point for unifying regime factions (Cumings, 2004). Furthermore, nepotism under the reign of Kim Il Sung, and more broad-based relationship ties under his son create a loyal cadre surrounding the *Suryong* (supreme leader). Oh illustrates that “under Kim Il Sung, relatives held about twenty-four key positions in the North Korean apparatus” (Oh, 2004). She goes on to point out that though the family-based patronage system has declined ‘significantly’ under Kim Jong Il he has increased the appointments of supporters’ family members. Thus, relationship politics play a key role in elite politics. Finally, material gain from retaining the favour of Kim Jong Il encourages loyalty to him. Elite membership is the only access for North Koreans to wealth and international information (Hassig, 2004). As the state is relatively impoverished, elites with access to

international markets and currency are disproportionately able to engage in black market activity. This constitutes an important source of income for regime insiders. While partial economic reforms would not reduce this privilege, rent-seeking and corrupt behaviour would conceivably negatively affect the population-at-large, siphoning much-needed development funds for private use (O'Hanlon, 2002; Mochizuki, 2001).

Kim Jong Il's attitude toward economic reform stands at the heart of its political success. The North Korean elite system, as seen above, is structured to ensure loyalty to the *Suryong*. It is important to note that for Mansurov "all signs indicate that Kim Jong Il welcomes creeping privatization and opening of the country's economy" (2004: 54). He goes on to outline a possible progression to Chaebol-like public-private partnerships, in which the political regime reforms just enough to attract investment and stimulate the economy but retains firm control of the new hybrid SOE's. Chaebol is a South Korean term for large business conglomerates which were heavily subsidized and interlinked with state elites (Kim, 2002; Cummings, 2003). In fact, the highly industrialized nature of the North Korean economy is one major advantage elites have over those in more agriculture based transitions like Vietnam (O'Hanlon, 2002). Institutional control by elites is more facile in large entities than it is in decollectivised agriculture, as concentrated assets are more easily controlled and appropriated (Walder, 2003). Kim's political control over factions in the North Korean elite, as well as his willingness to reform (Kang, 2004; Cumings, 2003; Park, 2002), gives support to the expected continuance and deepening of the process.

Elites in North Korea are wary of an 'uncontrollable' process of liberalization (Weingartner, 2002; Park, 2002). For reform skeptics like Philip Park, "Pyongyang is not in a position to embrace reforms and openness that would induce economic growth. It fears that

such a drastic move might endanger system stability and even cause system collapse as evidenced by European socialist systems. More importantly, the North Korean leadership cannot risk regime legitimacy by adopting open and reform policy measures that in effect negate its ideological legitimacy vis-à-vis South Korea” (2001:10). This uncertainty is the product of a combination of material and ideational factors. Materially, a shift to a market economy potentially means the state has less distributional control and thus less power. As businesses develop and are linked with the economic future of the country, the relative bargaining position of the political elites is lessened (Haggard and Kaufman, 1998). Ideationally, the move to marketization erodes both the Juche ideology of self reliance, and the commitment to a socialist ‘paradise’ where the founding communist principles of the state and elites are honored. North Koreans have a great history of sacrifice behind them- of war, occupation, starvation, and proud resistance to the US superpower- an ideational commitment that will not be easily eroded. Despite this, Kang argues that “the 2002 reforms were top-down and centrally planned. They were not ad hoc measures, but clearly had been under consideration for some time [and] ...the effect on society will be increasingly irreversible” (2004:100).

Conservative hardliners in DPRK politics further complicate this picture. They have ample security threats with which to stall reform and divert already scarce resources to the military-which stands today near 30 per cent of GDP. North Korea has “hundreds of missiles, including No Dong missiles with an eight hundred mile range, North Korea can strike all countries in Northeast Asia. In addition, North Korea’s September 1998 Taepo Dong I test demonstrated a range of over 1,000 miles, along with multi-stage missile capability” (Orcutt, 2004). At the same time they are neighbors with China, Japan, Russia, South Korea and

heavily influenced by the United States' significant military, political and economic influence in the region. China, Russia and the United States are nuclear powers, while South Korea and Japan are under the nuclear umbrella of the US. In January 2005 a report by the IAEA demonstrates that South Korea was involved in uranium enrichment from 1979 to 1982 and manufactured depleted uranium munitions from 1983 to 1987. The aspirations of even non-nuclear club members provides further support for hardliners in Pyongyang emphasizing security over diplomacy.

Recent changes in party organization suggest that further reform may be possible, and acceptable, despite the risks associated. Demographic changes have progressed side-by-side with the deepening economic reform process which may provide support to the thesis that reforms will be more difficult to reverse. The Korean Institute for National Unification reports that "the personnel in the cabinet and economic bureaucracy has... become more professional and younger in age, with experts in their 40s now in leadership positions, including, the Chairman of the Committee for the Promotion of Economic Cooperation (Baek Hyeon-bong ,47), the president of the Foreign Trade Bank (Oh Gwang-cheol, 44), the Director of Cheollima Steel Company (Kim Hyeong-nam, 40), who are all management-oriented" (KINU, 2005). The report goes on to detail accompanying policy shifts. It states that "North Korea also changed its method for appointing civil servants from recommendations and interviews to selection through tests on political and economic subjects (January 2004). Those who are to serve in trade related positions are chosen through tests on such subjects as foreign languages, public finance, banking, and international commercial transactions" (KINU, 2005).

This demographic shift also extends beyond broad party membership to the upper elite. The 'old guard' are now in their eighties and nineties, and are increasingly being replaced by

second (“1980’s group”) and third generation (“2003 group”) leaders in their fifties and thirties, respectively. The North Korea country report from the U.S. Library of Congress (USLC) states: “as of July 1991, the Sixth Party Congress Central Committee had 329 members. Nearly 40 percent of these members...were first-termers. Among the 329 members, the technocrats--economists, managers, and technicians--were the most numerous” (2005). This overhaul continued in 2003. Mansurov (2005) notes that in August of that year “51% of the 10th SPA deputies were replaced with new people at the 11th SPA”. As elites in power shift from militaristic backgrounds to technocratic ones, educated in economic models the support for further reform is strengthened, making policy reversals less likely, and less necessary (Kang, 2004). Top leaders today share a number of common social characteristics. They belong to the same generation; 52% of SPA members were younger than the age of 50 after the 2003 elections (Park, 2005). Furthermore, urbanization is shifting the party membership. The Korean Workers' Party has three constituencies: industrial workers, peasants, and intellectuals, that is, office workers. Since 1948 industrial workers constituted the largest percentage of party members, followed by peasants and intellectuals. The USLC reports that “beginning in the 1970s, when North Korea's population reached the fifty percent urban mark, the composition of the groups belonging to the party changed. More people working in state-owned enterprises became party members and the number of members working in agricultural cooperatives decreased” (2005).

A final change which provides structural support to North Korean reforms is its relationship with South Korea. Once a major adversary the DPRK's neighbour has undergone a complete reversal of prior policies and is now at the forefront of encouraging North Korean ‘peace and prosperity’. The ROK-US alliance is not as solid as it once was (Manyin, 2003).

Both states on the peninsula are referring with greater regularity to their shared Korean identity as ‘shrimps in a sea of whales’ and shared cultural identity (Park, 2002; Manyin, 2003; Koh, 2003). This shift is particularly striking when policies are compared to pre-democratization in the south. This change in the regional threat situation for the DPRK presents a number of opportunities for reform elements in the regime to leverage to enhance the success of their policies. Kahler and Kastner describe that Kim’s Sunshine policy “has been a critical natural experiment in the use of an interdependence strategy that explicitly rejects precise linkage between economic benefits and foreign policy behavior on the part of the target state” (2004:12). This was a marked shift from prior South Korean administrations which had a more negative view of Pyongyang’s intentions and, together with Washington perceived a high degree of threat from North Korea. They outline that “not only would the influence of this more moderate constituency grow under conditions of growing interdependence, a more benign security environment (less threat from the South) would offer them more room for internal maneuver” (2004: 20). South Korea’s role provides further support to reforms in the form of material aid, infrastructural development of the railways, economic zone co-operation, and a sympathetic vote in international bodies such as the UN or WTO. The presence of this aid to a ‘soft landing’ is an advantage to reform that neither Vietnam nor China possessed.

The reform path chosen by the highly centralized North Korean elite depends on the material incentives presented. Vietnam’s reforms deepened with a generational change in leadership, as did China’s (Chan, Kerkvliet, Unger, 1999). For Vietnam, the participation of the international community, and IFIs, was key. To date no such multilateral ‘incentive package’ has been adopted outside the Six Party Talks, though one has been developed by Babson (2000, 2001, 2003). Control is presently centralized on a leader with a high level of

control both over elites and society. Kang argues that “whether Kim Jong Il likes it or not, the dire economic situation in North Korea has forced him down a reform path that will be difficult to reverse” (Kang, 2004:100). Furthermore, he is ‘reform oriented’ (Mansurov, 2004; Kang, 2003) and in 2002 initiated a comprehensive state-led reform package. This does not suggest the path forward is set. Reversal and retreat further into the garrison state is still conceivable, given the continuing conflicts with Tokyo and Washington. However, the elites as described above are increasingly reform-minded, and thus a policy window may be open at present. Deepened reforms would locate themselves along a spectrum of reform- from one characterized by free private enterprise and investment regulations, private ownership of land and financial assets and liberalized trade to one in which a more corporatist model of government exists. The latter would see the North Korean elite in close consultation with business leaders, retention of state owned enterprises and following a model more like Vietnam and even South Korean development of the early 1980s. This analysis of the political economy demonstrates structural factors pushing deepened reform, as well as a centralized, powerful political elite increasingly committed to change. Using Hellman (1996) and Walder’s (2003) theories, this suggests North Korean elites, like those in Vietnam, will be the ‘winners’ in reform.

Chapter Two: A Case for Comparison – Vietnam

This chapter looks first look at alternative options for comparison: North Korea as a unique case, akin to China's 'model', or that of Vietnam. Once establishing a link to Vietnam, it goes on to outline the history of its transition process and the ultimate form that it took. The fifth section of this chapter looks at how the economic transformations, in their sequence and structure, ultimately affected political power. Finally, the role that international financial institutions (hereafter IFIs) played in the transition process is assessed.

COMPARISON: VIETNAM OR CHINA?

The case for comparing North Korea goes in three possible directions: northwest, towards China, southwest, toward Vietnam or toward a theory of incomparability. There are a number of reasons why China is touted as the North Korean model instead of Vietnam. The first speaks to the historical connection between the two countries that stretches back through a long clienteleist relationship. The second speaks to the more industrialized nature of China as compared to Vietnam. Third, the geographical location of both coincides in northeast versus Southeast Asia. And lastly to continued relations, support and aid that the PRC has provided to Pyongyang, ensuring the regime's survival.

First, the relative size of China to that of North Korea means that the North Korean economy would be unlikely to follow a Chinese path whose success was due to a high degree on the willingness of countries to tap in to the rising giant. Part of this has to do with productive power, and another to do with the vast bargaining power of a massive consumer market. Companies and capital are currently flocking into China, attracted by the potential of the huge market of 1.3 billion people. With only 22 million, North Korea is not –and could not

conceivably become- such a magnet to international capital. A second major difference which makes Vietnam a more apt comparison relates to the impetus for reform. The pre-transition economic levels of Vietnam and China are significantly different. The size of savings and investment as a share of total output illustrates this. Whereas China had a rate of accumulation as a share of total output of around 33-35 per cent in 1978-79, Vietnam's was 12-13 per cent, most of which is attributed to external aid (Fforde, 1999:51). North Korea, going into transition is thus far more comparable to Vietnam's initial levels of development and growth than to the massive Chinese economic machine. Both are aid dependent, requiring huge inputs of capital to upgrade and develop modern industrial techniques. Ryan (1999) asserts that "unlike China, Vietnam was compelled to launch reform policies because of a macro-economic crisis." This further demonstrates that both North Korea and Vietnam are alike in a pressing *need* to reform stagnant economic systems, whereas the Chinese elites did so more opportunistically.

The comparison between Vietnam and North Korea is not without precedent. Daniel Lipziger (1999) in particular explicitly uses the Vietnamese model in his recommendations for future engagement with North Korea based on a number of shared characteristics. For him, five in particular stand out: low per capita incomes, relative isolation from the international trading community, severe pre-reform food deficits, a southern partner familiar with market systems and finally, the Vietnamese military – like North Korea's today- was large and posed a challenge to political stability in reform as well as a drain on state resources (Liepziger, 1999:202). Beyond these material considerations though, both countries share an ideological commitment to communism and the consciousness-shaping experiences of colonial domination and nationalist guerilla wars of independence. In 2004, South Korea's Minister of Unification

Jeong Se Hyun also notes the growing North Korean interest in the Vietnamese system. In an interview he stated: “we have observed where the North Koreans have traveled over recent years to learn about the market economy. While in the past they have looked at some European states and China, lately they are sending more and more expert delegations to...Vietnam to study their legal system and property relations” (NPQ, 2004). The connection has not gone unnoticed in Russia either. Former Russian Prime Minister Yevgeny Primakov also noted the ‘new Vietnam connection’ in a 2004 visit with Seoul officials (NPQ, 2004).

The final possibility is to treat North Korea as essentially different from both of these states. Noland (1997, 2003) asserts that North Korea is fundamentally different than Vietnam or China- that it can’t follow their reform path. He emphasizes the unique military situation of Pyongyang, size differences with China, infrastructural differences with Vietnam as well as a perceived resistance to change in Pyongyang’s military elite. He argues that these factors hamper a DPRK export-led developmental strategy similar to China or Vietnam. The question of interest though is not whether the growth rates will be as ‘phenomenally successful’ but whether the DPRK elites can use the model to retain control through *sufficient* growth. This does not require Chinas size or attractiveness to foreign direct investment (FDI), or Vietnam’s rural population per se. They both retained control using variants of a slow, controlled process of development, and North Korea shares key characteristics with both. As outlined in the introduction, no cases will be exactly alike, either in process or initial characteristics. Despite this, it remains important, particularly for policy purposes, to find macro-processes that differ from other potential paths. Planning for all eventualities will lead to more informed, prepared, and thus effective international policy toward the DPRK.

North Korea is not Vietnam, but it is ruled by a communist regime seeking to remain in power and reinvigorate its economy. It is small, ideologically committed to central planning, and has hostile relations with Washington. Both materially and ideationally, there are useful lessons to be learned from its experience of transition and interaction with international institutions. Table Two presents a comparative snapshot of both countries.

Table Two: Vietnam – DPRK Comparison

	Democratic Republic of Vietnam (DRV)	Democratic Peoples Republic of Korea (DPRK)
Size	330,363 km ²	120,410 km ²
Population	81,000,000	22,700,000
Rural/Urban %	75/25	40/60
Life Expectancy	70.4 years	71 years
Literacy (compulsory years education)	94% (5)	99% (11)
GDP 2003 (USD PPP)	202.5 Billion	22.9 Billion (estimated)
Main Industries (as percentage of GDP)	Agriculture, manufacturing, services	Industry (machine building, armaments, electrical power), Agriculture, Mining, Services
Ethnic Groups (%)	Vietnamese (90), Chinese (3), Other (7)	Korean (99.5), Other
Ruling Party (Years in Power) Executive	Vietnamese Communist Party Nong Duc Manh- VCP General Secretary, Phan Van Khai- Prime Minister and Tran Duc Luong- President	Korean Worker's Party Kim Jong Il- Chairman of National Defense Commission, Supreme Commander of KPA and General Secretary of KWP
End of War	1975 (US withdrawal 1973)	July 27, 1953 (creation of DMZ)
Membership in International Organizations (major)	WTO (observer) ASEAN, Asian Development Bank, APEC, IMF, UN, WHO	UN, WHO, IMF (observer)
Main Trade Partners	China, South Korea, Japan, United States	China, South Korea, Thailand, Japan
Military active duty (reserve)	522,000 (4,000,000) two years compulsory service (m/f)	1,200,000 (4,700,000) four to ten years compulsory active service (m/f) reserve until age 60
Economic Restructuring	1986	2002

Sources: US Library of Congress, World Bank (2003).

HISTORY OF REFORM IN VIETNAM

Like Korea, Vietnam has a long and tumultuous history. Occupation by France, Japan, the United States, and decades of war, have played an important influence in shaping the country's political, economic and cultural legacies. Following almost 900 years of

independence, Vietnam was colonized by France in 1858. During French colonial rule a strong nationalist movement grew and consolidated its power particularly in the remote north. It was comprised of both communist and non-communist nationalists, a split which later would play an important role in the partition of the country and the road to civil war. This coalition also set the basis for Vietnam's unique variant on Soviet-style communism. During the colonial period however, the struggle against France was led by a charismatic communist leader- Ho Chi Minh. In 1945, following Japan's defeat, Ho declared Vietnam's independence from both the French and Japanese. France's refusal to withdraw led to the First Indochina War (1946–54), and over two decades of armed conflict for Vietnam.

The French defeat at Dien Bien Phu marked the end of colonial rule in Vietnam but the beginning of conflict with America. The 1954 Geneva Conference left Vietnam a divided nation, with Ho Chi Minh's communist government ruling the North from Hanoi and Ngo Dinh Diem's regime, supported by the United States, ruling the South from Saigon. This experience parallels the Korean one in many respects as both anti-colonial struggles found themselves deeply embroiled in the Cold War. Korea and Vietnam gained independence from Japan and France, respectively, after the end of the Second World War, but their domestic situations were chaotic. Korea was devastated by the Korean War, Vietnam by the Indochina War, and each was divided into North and South. The Second Indochina War (1954-75) pitted the communist North, aided by China and the Soviet Union, against the U.S. backed south. Ultimately the North won the war, but not after an estimated 3 million deaths, 4 million injuries (U.S. Library of Congress, 2004) devastated economic infrastructure, and incurring the animosity of a defeated soon-to-be superpower.

Vietnam reunified in 1975 and with this a new round of problems began. The new leadership was faced with unifying a country based on two very different economic systems. Importing a Stalinist type collectivized economic system, the government put a focus on developing heavy industry- a path which led Vietnam to economic ruin. The regime was then faced with severe economic crises in the 1980s, famine, and the collapse of its major supporter- the Soviet Union. Despite the central role which communist bloc support played in Vietnam, relations between it and the Soviet Union, like those with China have been somewhat tumultuous throughout the nations' history. Vietnamese nationalism led to an exceptionalism from communist orthodoxy which did not sit well with either Stalin or Mao. Furthermore, both leaders were also embroiled in a struggle over Mao's deviation from Leninist principles.⁸ Like the nationalistic ideology of North Korea's Juche, Vietnam, particularly under Ho, adopted communist theory to suit local traditions and conditions. He focused on rural agricultural development rather than urban industrialization against the advice of the Soviet Union at the time in order to reflect the Vietnamese economy (McCargo, 2004). Hence, national needs, rather than pure ideology played a formative role in the Vietnamese experience.

During this period Vietnam was also involved in a long term occupation of Cambodia and subsequent invasion by China. This combination of factors so close on the heels of two major wars contributed to the underdeveloped state of the country at the eve of reform in 1986. Beyond the material impoverishment, the challenges had a significant effect on the way national identity-and national interest- is shaped in Vietnam. Ho Chi Minh, the communist guerrilla leader through much of the nationalist struggle, was elevated to the status of national hero, a symbol with considerable strength to this day. A great deal of the Vietnamese

⁸ For more information on differences within communist developments in Asia see McCargo (2004), Van Hoa (1997) and Fforde (1996).

Communist Party's legitimacy comes from their links to the nationalist struggle for the independence of Vietnam (Beresford and Phong, 1998). This legitimacy has persisted through economic crises and the symbols used remain strong to this day presenting reformers with a delicate balance, much like that in North Korea.

The decision of the Sixth Party Congress in 1986 to undertake a comprehensive restructuring and renovation process (*Doi Moi*) is often seen as the main turning point for Vietnam's economic reforms. However, experimentation with reform and liberalization started in an ad hoc manner earlier, as a response to periods of economic stagnation and macroeconomic instability and to the cessation of Chinese and Western aid in 1979-80. These early reforms included introduction of a contract system for agricultural production and legislation of fence-breaking allowing enterprises to trade in the open market after making centrally planned targets.

Reform in Vietnam, like that today in North Korea, was a product of economic necessity, as well as political demographic changes and opportunity. Many of the features that sustained the old communist system were falling apart. China began its 'four modernizations' under Deng Xiaoping in 1978, deviating from its prior commitment to central planning and by the mid 80's was well on its way to high levels of growth and rapprochement with many western powers. The end of the 1980's also saw the collapse of the Soviet Union and thus a significant prop to both the Vietnamese and North Korean economies. Domestically, poor planning with an emphasis on heavy industry combined with the enormous costs of sustaining a military occupation of Cambodia for over ten years also combined to produce the crisis. Unlike China, Vietnam was not an example of successful communist central planning and it found itself politically isolated and economically underdeveloped in 1986. This led to a

number of mixed economy reforms introduced in the Communist Party's Sixty Party Congress and the implementation of *Doi Moi*. The subsequent section details these changes.

THE VIETNAMESE 'MODEL'

The reform process in Vietnam was not comprised of one smooth transition path. As far back as 1979 there were limited attempts at agricultural reform, and the introduction of relative autonomy for some factories. These policies were subsequently changed back, reflecting the uncertainty of the regime. The Sixth Party Congress however marks a significant departure from this because a 'package' (see Table three) of policies in 1986 was introduced which paved the way for future and much deeper reforms. What began with price and currency reform as well as greater autonomy for state owned enterprises, has proceeded through significant legal and even constitutional reform, supporting private ownership and foreign investment.

Table Three: Structural Elements of *Doi Moi* Reforms

Key elements of the restructuring and renovation process have included:

- Reversal of the process of collectivization of agriculture by granting individuals and families long term rights to use land;
- Price liberalization to eliminate the two price system that prevailed under central planning, and removal of barriers to internal trade;
- steps toward creation of a modern banking system, by splitting off the commercial banking functions of the State Bank, and facilitating establishment of new foreign and domestically owned banks;
- partial liberalization of foreign investment and international trade, accompanied by efforts to formalize entry into the multilateral and regional trading system and to regularize bilateral trading and investment relations;
- foreign exchange market reforms and shifting to a more market determined exchange rate system;
- reform of the SOE system through enterprise restructuring, introduction of new approaches for management and oversight, changing the relationship between SOEs and the budget and the financial sector, and more recently changing structures of ownership through equalization;
- formal acceptance of the private sector and steps towards creation of a legal framework for the functioning of a corporate sector; and budgetary reform, to change the basis of revenue raising to a more modern system of taxation, and adoption of a more formalized expenditure planning and control system.

Source: Warner (2000)

In essence, the Vietnamese model is a modification of the Chinese model- opening up the economy step by step while maintaining the rule of the Communist Party- and both did not pursue the ‘big bang’ Soviet approach. In Vietnam, stability through incremental reforms was a key goal of the regime. State institutions were not dissolved, as in the Soviet case, and this institutional and political continuity paved the way for stability. Abinales (1997:697) argues that “The fact that pressure to introduce market mechanisms came from within state institutions rather than from outside was crucial in making the transition less disruptive than that of other bureaucratic-socialist regimes.” The sequence of reforms in Vietnam’s is as follows: denationalize agriculture first, privatize light industry and liberalize foreign trade and investment next, restructure the state-owned enterprises in the heavy industries and banking system last. By leaving major economic institutions until the end, the VCP ensured a degree of control over employment levels and key industries in the economy. Furthermore, elites were able to appoint managers to key positions, ensuring co-operation and loyalty.

The Vietnamese ‘model’ of transition is differentiated from alternative paths in a number of ways⁹. First, official policy was unable to diverge from core communist premises. As will be discussed further in the subsequent section the legitimacy *of the communist leadership is closely tied both to the nationalist struggle and redistributive socialist practices. Second, Vietnam has posed challenges for scholars, particularly economists, who expect high levels of economic growth to come from countries with clearly-defined private property rights and relatively autonomous legal systems. With annual growth rates of 5-8 per cent following *Doi Moi*, the Vietnamese model of postponing full-scale privatization and legal reform

⁹ Such as those in post 1989 central European nations (Walder, 2003; Nee and Matthews, 1996; O’Donnell and Schmitter, 1986; Haggard and Kaufman, 1995).

suggests the latter is not a *sine qua non* of growth. Third, the role of State Owned Enterprise (SOE) reform in Vietnam departs from the FSU model. In Vietnam SOE reform has been reluctant and gradual despite the advice of international donors and institutions to do otherwise. This ‘stickiness’ in policy change suggests a reliance (at least perceived) on the SOEs for political and economic leverage.

Perhaps most importantly for North Korea, Vietnam had a history of ad hoc (some say ‘failed’) reform prior to the sweeping changes of *Doi Moi*. This was essentially due to the regime’s uncertainty about the effects of market liberalization on political power, as well as – and perhaps more importantly- their ideological commitment to socialism. Adam Fforde characterizes this: “the dogmatic socialist position hobbled overt policy changes to create a market-oriented system”(Fforde 1999 46). What has emerged as a result is the maneuvering of a fine line by elites. They maintain a ‘socialist orientation’ within this mixed economy, using the state owned sector and cooperatives to minimize the negative impacts of the private sector on inequality and unemployment. In fact, contrary to ‘big bang’ models or shock therapy neoliberal policy, Vietnam’s state sector contribution has *risen* since *Doi Moi* from 33 per cent in 1990 to 40 per cent in 2005 (Karadjis,2005):

Control over the SOEs in Vietnam was one of the major factors contributing to the VCP’s continued political power. If the party controls access to responsible positions and appointments in the large state sector of the economy it can ‘trade’ these for political loyalty. Without this leverage, powerful, well-educated individuals have incentives to migrate to the private sector. Hence, an effort to retain loyalty ‘carrots’ helps mitigate the effects of free labour markets on party control of the economy. Indeed, even after reform, state control of the

economy, both in breadth of sectors and number of enterprises, continues to be extensive, and constitutes an integral component of Vietnam's transition model.

POLITICS OF REFORM IN VIETNAM

The most significant aspect of the Vietnamese experience of reform is the continued influence and popularity of the Vietnamese Communist Party. It is this political stability which makes the Vietnamese 'model' appealing to states like North Korea, who are trying to walk the fine line between participation in the world economy and maintenance of a communist one-party system. Liepziger, at the Institute for International Economics argues that "the most basic lesson of the Vietnamese experience is that a regime committed to reform out of self-interest can undertake very radical economic reforms in a short span of time, particularly if this is unencumbered by political reform movements" (2001:209). This acknowledges the great impact both the Chinese and Vietnamese transitions had on the economic reform literature, which has traditionally linked political transformations to economic ones (Nee and Matthews, 1996; Hellman, 1998; Cheek and Lindau, 1998; Brezis and Schnytzer, 2003).

In order to understand the process leading to and implementing reform, it is necessary to 'unpack' the black box of VCP politics, as done in Chapter One with North Korea. Many characterize the party as a homogenous entity with a definable set of 'interests'. While this approach may be convenient for political analyses it rarely represents the actual variation and negotiation which takes place behind the scenes of the one party system. Chris Dixon argues that there is considerable pluralism in both pre and post *Doi Moi* Vietnamese politics which hides under an 'umbrella of authoritarianism' (Dixon, 2004:18). There exist factions of reformers, conservatives, and 'in-betweens' within the party who compete to shape policy. This is evidenced in the media repression in the late eighties by conservative elements in the

regime wary of liberalizing effects. The best efforts of conservatives notwithstanding, time reshaped the composition of party membership. The generation of VCP leaders who were forged in anti-imperialist struggle and raised in the Cold War contest against capitalism has faded from party membership. In the 1992 elections, seventy-four per cent were new party members (Dixon, 2004:21) allowing for much greater flexibility ideologically and in policy practice.

Despite the generational change in party elites and wider participation circles, significant forces remain which complicate and constrain policy reform. The cult of personality surrounding Ho Chi Minh constitutes a key aspect of the political image of the Vietnamese party. His symbol has persistently linked nationalism and communism in Vietnamese political culture. Quinn-Judge describes that “Ho was the supreme leader of his Party, in the image of Mao Zedong, or Kim Il Sung. The current Vietnamese leadership has clung to this image of Ho, as a way of legitimizing its current monopoly on power” (2004: 27). Straying too far from communist planning models constitutes not only a deviation from the past then, but also a challenge to Vietnamese nationalism and the memory of the ‘great leader’. This is a significant obstacle to reform for the Vietnamese communist party, one that also faces reformers in the KWP. Official policy shifts away from communist central planning struck directly at legitimacy as it is constructed on revolutionary communist foundations. Transition scholar Adam Fforde highlights this complexity: “both China and Vietnam have attained economic and political success by shifting toward a market economy but have no clear idea of what new ideological premises are appropriate” (1999: 45). Some suggest this new path is that of market socialism or economic nationalism but it is far from consolidated. For Abinales, “although the VCP leadership may look to ‘tiger economies’ for inspiration, its mental map of transition lies

elsewhere ... Ascertaining the role of the market under socialism, and then ensuring that the market does not foster ‘capitalist restoration’ has always been one of the greatest challenges to communist regimes, from Lenin to North Korea today. The Vietnamese are no exception” (1997:698).

How, with the factionalism and time-consuming decision making process did the party keep power? The opportunity to factionalize may have increased proportionately with the accessibility of private resources in society thus eroding party membership and cohesion (Walder, 2003). The answer lies in control of three key nodes. First, retention of SOEs was critical to the preservation of an economic power balance, as outlined in the previous section. Second, control of the media prevented opposition from organizing and dissent from crystallizing. Media freedom is precarious and “broadly-defined national security legislation offers a virtual carte blanche for political crackdowns” (Dixon, 2004:21). Finally, the party institutions were integrated into the machinery of state in a process which Beresford and Phong (1986) call ‘statization’. Essentially, this acknowledges that the political laurels of the independence struggle will only provide legitimacy up to a point. By melding state and party institutions the party can continue to rule with an increased sense of legitimacy through state organs.

THE ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS

International Financial Institutions played a significant role in providing Vietnam with the information and, eventually, resources, it lacked. Vietnam entered its reform period isolated from the outside world and weakened economically by famine and war. It lacked significant expertise in running an economy even along Stalinist lines, let alone making a shift to a market (or hybrid) model. “Throughout the entire reform process the Vietnamese were able to draw

on external expertise as needed, from international institutions, from expatriates, and from those being trained in market economics, in order to select a sequence of action that was politically sustainable in the Vietnamese context" (Liepziger, 2001:209). This connection was critical for a number of reasons. First and foremost it allowed elites to leverage the substantial expertise in market economics provided by these organizations, as well as their experiences in other transition economies. One critical aspect in the success of transitions is the stable application of policies (World Bank, 1996). A significant history of 'failed' reforms due to lack of expertise and understanding of market function may undermine the very reforms attempted. Vietnamese leaders may not have implemented all recommendations, indeed they blatantly ignored those on SOE reform, but the knowledge-providing contribution of financial institutions is widely acknowledged (Warner, 2000: World Bank, 1999: Liepziger, 2001).

Vietnam's international isolation due to the Cambodian occupation and continued hostilities with Washington also meant that funding for infrastructural development was difficult to come by. It was not an attractive place for FDI, and was lacking in exports to obtain international currency. Again, international financial institutions played a key role. Following the initial period of consultation and advice the World Bank and IMF, in consultation with donor countries, provided reconstruction loans and a plan to access international capital markets. As the legitimacy of Vietnamese reforms was established, the country's participation in other multilateral bodies such as the Asian Development Bank (ADB), Association of Southeast Asian Nations (ASEAN) and observer status at the World Trade Organization (WTO) was facilitated. In essence, the links established through the IFIs paved the way for broader multilateral interactions and stabilization of relations.

Vietnam's transition occurred because of a number of intersecting factors in the late 1980s. Soviet Collapse, China's three modernizations, internal macroeconomic crisis and famine influenced both the regime's decision and implementation. The participation and involvement of IFIs helped gradually to integrate the country into multilateral developmental bodies and such involvement provided positive feedback mechanisms for continuing reform and transition. Vietnamese political culture and dynamics played a key role in shaping a uniquely Vietnamese character to the reforms, ensuring they broadly met with local political realities and ensured regime stability. Without any of these key threads one could conceive of a substantially different transition path.

UNPACKING MODELS

On the broad scale, Vietnam's model, like China's, is differentiated from that of Eastern European countries like Hungary, Belarus and the Ukraine. When the decisions in favour of shock therapy and radical reform were made in Europe, the old political orders were already undermined (Hellman, 1998). Hence economic considerations followed from the political changes *already occurring*. This issue of motivation and sequencing of reform is critical. At the other end of a typology of reform stand Vietnam and China. They are distinguished from other communist block countries by gradualist, elite-led reform paths, as opposed to the 'big-bang' societal upheaval of the former. Both Vietnam and China still enjoy political legitimacy. Reforms in these two countries were enacted out of economic and not political necessity. A further factor that is interlinked, but begs elaboration, is that of the reform method. In Eastern Europe, transitions orthodoxy suggested that a wholesale package of political, economic and cultural reform was desirable, thus leading to elections, privatized market economies and an attempt to foster western liberal civil societies. This is echoed in the

position of realists like Eberstadt (2001) and Noland (2003) on North Korea, pushing for a ‘big bang’ regime change model. Part of this is due to an accepted ‘failure’ of communist planning models, and part to the influence of capitalist Europe and western IFIs like the World Bank and IMF. Again, on the other hand, are the Vietnamese and Chinese models. They rejected this logic of wholesale or ‘big bang’ reform, electing instead to work on economic growth as a *source* of regime legitimacy and stability.

The political benefits from gradual reforms are discussed and developed in the works of both Walder (2003) and Hellman (1998) in Chapter One. For these scholars, elites in a mixed/hybrid economic system of state control and marketization are well-positioned to use economic clout to retain political advantages in the economy. This is particularly true in their ability to allocate production targets, control land distribution and licensing, and manage media to hamper political mobilization by potential competing groups. In this way the current elites in systems of gradual reform enjoy a much greater degree of political stability over those who undergo comprehensive socio-economic reform packages. Brezis and Schnytzer go further to develop a method of identifying which model states are likely to follow. They distinguish ‘embezzlement for a rainy day’ (of the FSU type) from ‘market-Leninism’ (Vietnam-China) based on the coercive capability of the state. In short, Vietnam and China were able to privatize some aspects of the economy while maintaining control, due to their political power, and legitimacy gained in advance of transition. The case was the opposite in Eastern European countries and as a result elites ‘abandoned ship’ to democratization and economic reform after looting the state. Following their typology, North Korea fits with the market-Leninist system, with DPRK elites enjoying a high degree of both coercive power and legitimacy. Furthermore,

the benefits to these elites of staying in power under transition far outweigh those of ‘abandoning ship’ in a creaking economy on the brink of collapse.

In the broader sense, Vietnam’s model is really one of gradualism and sequencing reform to ensure political stability. Though the typological distinction at the beginning of this chapter puts China and Vietnam at one end of a spectrum, there remain significant differences between the two countries’ models. But, Vietnam, like North Korea, underwent transition in a more grudging, tentative manner “for reasons of self-preservation rather than principle” (Perlez, 2004). This distinction is a critical aspect of the types of policies likely to come out of and appeal to North Korea, based upon elite bargaining power (*vis-à-vis* those in a much more powerful China) and perception of cost-benefit tradeoffs¹⁰. This does not imply that such a model can be imported directly into the North Korean context. Just as reformers in Vietnam adopted reforms to fit local political norms and production needs so too will those in North Korea encounter complications when implementing policies on the peninsula.

To conclude, there are five generalizable aspects of Vietnam’s model. First, retained state control of key SOEs comprised a critical aspect of the model that ensured leverage in the economy for political elites and thus facilitated stability in transition. Second, Vietnam focused on export oriented development, establishing zones to attract foreign investment and boost output. Increased export levels gave the state access to desperately needed foreign currency, further strengthening the economy. The third factor was a persistent commitment by the state to core socialist principles of accessible education, health care and poverty alleviation. This helped strengthen political legitimacy in post transition Vietnam, tying the current elite policy to key normative elements of the communist planning model. Finally, the Vietnamese

¹⁰ This is based primarily on Walder’s “Theory of Elite Opportunity” (2003) and Hellman’s (1998) conception of elite politics in post-communist transition.

model was characterized by a significant involvement by IFIs, first in an advisory capacity, and then in capital inputs through developmental loans.

Chapter Three: Applying the Model in the DPRK

What lessons from Vietnam's transition are applicable to the changes taking place in North Korea today? This chapter takes four key aspects of the Vietnamese process and analyzes their applicability in North Korea: SOE reform, export oriented development, market socialism and international institutions, exploring briefly their importance and how each fits in a DPRK context. The final two sections of this chapter look at alternative scenarios of reform and obstacles to the process. Both deal with the inherent unpredictability of such a process and the likely alternative paths the changes initiated may take. They also address the role elite incentives will play in the process. In order to draw lessons from Vietnam's experience, reform needs to be re-conceptualized, not as one whole package, but as two distinct parts: one case specific and one generalizable. The latter is drawn from the overarching goal and sequence of changes. The second is the micro-level application of goals. Splitting the Vietnamese process in such a way allows the isolation of similar aspects in the North Korean case, from those that obviously differ. No package will be universally applicable, such an assumption of state homogeneity runs contrary to social sciences' experiences with the diverse workings of political processes around the globe (Ragin, 1987; Munck, 2004). Given these differences, it is very important to identify typologies of where and when policy changes may expect to have similar results.

Comparing Table One (p.21) and Table Three (p.44) demonstrates that North Korea is already following a similar reform path as that in Vietnam's *Doi Moi*. Enterprises have been restructured, giving more managerial autonomy to locals, exchange rates are being realigned closer to market levels, prices are being liberalized, markets created, limited private plots legalized, and foreign investment legalized and encouraged. In addition the policy statements

have made the ideational shift to ‘practical socialism’ (Kim, 2001) in North Korea, like Vietnam in the 1980’s. The following are policy developments to deepen reforms and help strengthen the economy.

STATE OWNED ENTERPRISE REFORM

VCP control of key SOEs and gradualist reform provided both stability and leverage for communist elites. In 1989, Vietnam reforms were carried out keeping key SOEs, and gradually equitizing (privatizing) the most inefficient ones. The number of mandatory targets was reduced and the enterprises can now operate outside the plan after the mandatory targets have been met. As an incentive, they now retain up to 85 per cent of the profits from activities outside the plan for their own purposes. Attempts were also made to move official prices closer to market rates and decentralize trade to local enterprises. In a recent seminar at the Korean Institute for National Unification, a Vietnamese scholar elaborated:

“The strategic objectives of the state distribution services have been limited to the establishment of sufficient reserves and buffer stock of essential goods to mitigate the sudden shocks of demand and supply and therefore contribute to the stabilization of prices. The coverage of the state distribution services has also been reduced to distribution of essential goods that the other economic sectors have not been capable of supplying. Since the beginning of 1990s, the state distribution sector mainly engaged in whole sale, especially of strategic goods such as petroleum and fertilizer, and the share of this sector in retailing services has steadily decreased over time. The rapidly growing private sector has increasingly dominated the retail services with small and micro private enterprises and household business prove to be much more efficient in a dynamic environment than the less flexible central and local SOEs” (Quang, 2005:48).

State owned enterprise reform has already begun in the DPRK. The 2002 economic reforms were a start in allowing more flexibility in the SOE sector. Far from the tightly controlled political dictates of the past “state enterprises are now expected to be self-sustaining without state subsidies, and will be free to set their own production plans and engage in

commercial transactions. The combination of imposing hard-budget constraint and decentralizing decision-making represent significant changes in enterprise policy" (Babson, 2003: 9). North Korea has established the principle that although resources under state control are assigned priority for national defense and heavy industries, market-oriented reforms will be implemented in the light industries as well as the agricultural and commercial sector to ensure self-reliance. In short, it has already started down the Vietnamese path.

However, a start is not enough. The decentralization of light industry and agriculture, though it increased managerial autonomy, has not been followed up with significant training or increased resources. This has led to new problems which threaten not only the livelihood of SOE employees (as much as 70% of the working population) but also the industrial foundation of the DPRK economy. A thorough overhaul and reform of the much-troubled SOEs that dominate the industrial landscape of the North is vital. State-owned enterprises have become responsible for their own budgets and prices, and the increased salaries. Without required training and capital from foreign assistance such a managerial shift is counterproductive. Pyongyang has sent officials abroad to study economics, but large scale training programs such as an EU pilot project have been cancelled due to the nuclear issue. One of the worst consequences of this could be 'industrial cannibalism'; there are already reports that DPRK factories are being stripped and the machinery sold at the Chinese border. In this way the reforms might actually be reducing the industrial production, with masses of unemployed people in the cities. International support is a key ingredient to overcoming these challenges and aiding the reform process.

One key lesson for future implementation in North Korea is a program to lessen the impact of large-scale state restructuring. This contributes both to social stability and enhanced state legitimacy. The Vietnamese Government set up a special Social Safety Net Fund for redundant SOE workers, run by the Ministry of Finance (MOF). “Workers who are either separated from their jobs or volunteer to leave them are offered two months of basic salary per year of service, plus a training allowance equivalent to six months of salary, plus six months of salary to support their job seeking process, plus a lump-sum of 5 million VND” (Quang, 2005, 52). Developing and supporting this system requires both capital and administrative capacity, something North Korea is unable to provide by itself.

EXPORT-ORIENTED DEVELOPMENT

Like South Korea and Vietnam before it, adopting the ‘Asian tiger’ model of export-oriented development is one way of generating the foreign capital necessary to renovate other parts of the economy and raise the overall standard of living. Traditionally, one aspect of Juche ideology rested on the ability of North Korea to be self-sufficient in production for the domestic economy. The logic underlying this is that independence insulated the DPRK from external fluctuations. Soviet collapse and Chinese ‘defection’ to capitalism demonstrated the inability of Kim to ensure that extreme form of independence even though in the immediate post-war period it was able to succeed with support from other communist-bloc countries. However, in the current economic system, small countries such as the DPRK and Vietnam are incapable of providing all the necessary goods for their populations. As a result, orienting at least a portion of domestic industry toward export production is a valuable tool to gain international capital and thus the ability to import other goods and technologies.

North Korea has one key advantage in the development of such industry- South Korea. The success of its southern neighbour in economic terms prior to the Asian crisis was nothing short of legendary. Recent agreements on economic cooperation signed between the two countries as well as cooperation in a number of export processing zones (particularly the Kaesong Industrial complex) suggest that both countries have already recognized the benefits of such a policy. Furthermore, recent South Korean trade agreements have included a provision to treat goods produced in these zones as ‘made in Korea’ products, ensuring increased development of these ‘unification experiments’(KINU 2005). As a result, a path of export-oriented development is possible given the increasing support from South Korea, which holds key niches in lucrative electronic and automotive markets. The availability of a highly educated population in the North working well below their ‘production possibility frontier’ supports the feasibility of this avenue of reform. To date, some of these co-operative institutions have not produced the predicted (or desired) profits but have been a critical element to establishing trust and co-operation, particularly between the DPRK and South Korea. This is a key aspect of the liberal argument for encouraging economic co-operation further. This economic diplomacy and networking provides an alternate method of information transfer, as participants relate no longer solely as aggressors in conflict. This is important as a first step, but for the export orientation to work and provide maximum benefit it must be combined with institutional support, planning expertise, infrastructural (energy and transportation) investment and enhanced governance mechanisms which can only come from deepening reforms in the other sections mentioned here.

An additional note on the potential contribution of South Korea to the North’s development process: neither Vietnam nor China had a Southern ‘partner’ in development

with high levels of development, international legitimacy, and a willingness to view change over the ‘long term’. In fact, given the significant policy shift in Seoul since Kim Dae Jung, the presence of South Korea provides a significant support to the expectation of successful economic development in North Korea. First, North Korea has a neighbour and relatively wealthy integrated country with similar language and cultural orientation, with a strong interest in helping it through this crisis and into stability. As democratization has progressed in South Korea, the ROK policy has continued to diverge from that of the United States, its cold war ally and indeed become significantly more accommodating towards the DPRK (Lee, 2003). Second, South Korea can act as a go-between or mediating partner for North Korea on the international scene. Of course, this depends on the willingness of ROK companies to significantly invest. Cultural and historical ties, as well as generational change, and current policy on the peninsula make this a likely possibility. Since North Korea does not fit the agro-growth model of Vietnam, the presence of South Korea and its (Chaebol-led) development path provides a much needed alternative (O’Hanlon, 2003).

MARKET SOCIALISM

Both Vietnam and China have been experiments in what some call ‘market socialism’. This is important for reforms in North Korea because it too must walk a complex line between capitalist accumulation methods and communist political legitimacy. The ‘socialist’ oriented market strategy in Vietnam provides another important lesson for North Korea. Far from a wholesale abandonment of collectivist policies Vietnam shows an example of a country with high literacy and employment rates in both pre and post transition. As a ‘low income’ country per capita GPD is US\$430 (Karadjis 2005;3)-health and literacy rates are on par with ‘middle

income' countries like China and the Philippines. Infant mortality rates in both periods are also well-below the Asian average, demonstrating the government's investment and commitment to core socialist principles, as well as their ability to maintain such a commitment despite the efficiency pressures of capitalist marketization. Furthermore, the relative discrepancy between female and male literacy rates is, on average, two points (Karadjis, 2005). This indicator shows a great deal more equitable distribution of empowering fundamentals in development- health and education. By retaining a socialist commitment to all members of society, the regime is able to preserve a legitimate claim to it's founding principles, even through economic transition. The unevenness of development has been much more for those in China, further illustrating why Vietnam provides a more desirable model despite the former's higher rates of economic growth.

A retained commitment to the nationalist founding ideology allows reformers to walk the fine line between conservatives nostalgic for the old system and those more enthusiastic about the potential of marketization. The political unity of both communist parties- VCP and KWP is a critical aspect in maintaining stability through reform. In Vietnam, Liepziger notes that "as a result of War and previous hostilities the cadre of leaders was a tightly knit group, and the political leadership was able to establish consistency across ministries and sectors to enable the reform program to maintain internal integrity. This was particularly important given the uneven pace of reforms" (1998:208). Keeping this political stability by preserving the spirit, if not the method, of communist management has proved a key aspect both to stability and legitimacy in Vietnam. Furthermore, an emphasis on health care, education, full employment and slow, stable growth facilitates sustainable development. Equitization is an interesting model of socialist oriented privatization that is used in the Vietnamese context. In

the process of state-owned enterprise reform the VCP has initiated policies in which former state-owned enterprises become ‘equitized’ and essentially collectives ‘owned’ by their workers. There are numerous problems with this policy, most of which center around enforcement mechanisms and a lack of managerial skill, but this innovative way of bridging the contradiction between markets and central ownership highlights the potential for compromise in a hybrid economy.

INTERNATIONAL INSTITUTIONS

North Korea does not have the necessary resources to undertake the above reforms, nor does South Korea, by itself. This stands both with respect to material resources (equipment, capital) and knowledge-based resources in transition economics. Though South Korea is a market economy, the institutional expertise of International Financial Institutions would provide much needed training and legitimization to North Korea’s process. Without the knowledge-based resources it is improbable that North Korean reforms could mobilize sufficient capital either in the form of international development loans, or private investment. North Korea's admission to the UN in 1991 makes it eligible for various types of economic, scientific, and technical assistance from the UN and its various specialized agencies. UN membership also increases the possibility that North Korea can participate in other international financial institutions.

North Korea is not now a member of IMF, World Bank or Asian Development Bank (though it has expressed an interest in joining the latter). Bradley Babson suggests that “joining the IFIs would be a major step in bringing multilateral support to the inter-Korean reconciliation process (Babson, 2001:4)”. One mechanism through which IFI participation

could help bring extra capital to the development process is though the involvement of the International Finance Corporation and Multilateral Investment Guarantee Agency which help mitigate risks faced by investors. Furthermore, the research and training facilities of IFIs can be leveraged to work on such critical and complex issues such as resolving the energy and food crises in North Korea. Both of these will require significant infrastructural investment beyond that which the current system (KEDO for energy) is capable of providing.

Realistically, North Korean involvement with IFIs will not be viable, at least in the short term, due to security tensions between Pyongyang, Washington and Tokyo. Even if North Korea were amenable to having World Bank researchers and advisors involved in the policy planning process, an unlikely proposition, it would be difficult to conceive of Washington's approval without nuclear demobilization first. This said, the World Bank was involved in Vietnam's process before normalization between the DRV and the US in 1995. This suggests that timing may be flexible and IFI involvement should not be overlooked as a longer term policy option, as the benefits are substantial. Regional organizations such as the Asian Development Bank may prove a useful stepping stone to the larger organizations as they are comprised of states already in contact with Pyongyang. Furthermore, the interaction between Vietnam and the IFIs did not take place immediately. The process began through initial interaction with the United Nations Development Program (UNDP) through the 1980s and early 1990s. Their advice, instructive in the North Korean case, was unconditional, and paved the way for further interactions between the VCP and the World Bank/IMF (Liepziger, 2000).

Finally, the scale of technical assistance IFIs could potentially provide to the DPRK is vast and is critical to ensuring the success of reform. Without help, it is unlikely that North

Korea will be able to develop institutions to ensure fair and sustainable growth rather than ‘casino capitalism’. A failure to recognize the disparity in development and to protect the public interest in North Korea with a strong regulatory framework would be a mistake. Liepziger illustrates that this “would result in very clear ‘excesses’ and damage both reform elements in North Korea and the process of political and economic normalization” (2000:213).

TWO ALTERNATE SCENARIOS

Though this thesis argues that economic reform in the DPRK is underway and could plausibly continue and deepen, there are other conceivable possibilities. It is important to mention these potential paths to illustrate the seriousness of supporting reform processes in North Korea. This work paints perhaps an optimistic picture of the potential path. The primary reason is that by widening the scope and scale of policy options, the chances of finding a win-win are enhanced and negative feedback processes are minimized. The latter refers to a process in which negative responses generated from pessimistic interpretations of political signals replicate exactly the behaviors that one would like to change. For example, if DPRK hardliners are strengthened by containment policies in Washington, Tokyo, or Seoul, derived from a skeptical position on peaceful change. Being prepared for the worst does not mean assuming the worst. To assume reforms will come to naught precludes the development of policy responses capable of dealing with such *positive* developments, let alone encourage them. This does not mean practicing ‘ostrich scholarship’ regarding the regime’s history of extortion and deception. On the contrary, it is critical to see the crises from a variety of angles and be ready for unpredictability that seems wedded to political interaction with Pyongyang. To this end I will contrast two competing scenarios which envision a deterioration of relations on the peninsula, based on skeptical assessments of the possibility for peaceful elite-led change.

One scenario, articulated in the work of Oh and Hassig (2004), uses the metaphor of a spring-door. The deeper reforms are implemented in North Korea, the more severe the policy crackdown by insecure elites, primarily conservatives in the military. This process serves to undermine the security of the state and region on a number of different levels. First and foremost it would result in the further alienation of the country from those in the international community who are ‘on the fence’. At present there have been expressions of interest from members of the European Union, United Nations Programs as well as the continued financial support from South Korea and China. Conceivably, a massive conservative retrenchment in the north would have a negative political impact, further eroding the country’s security. Secondly, such a retrenchment would have disastrous economic consequences for the millions of North Koreans who are already near famine conditions. In this scenario regime implosion through widespread famine could destabilize neighbouring states with refugees. To hedge against this effect, the policymakers might implement policies to promote the success of reform projects as judged by *North Korean* standards. Such a focus would build trust that regime change is not the goal, in so doing strengthening the reformist position within the elite leadership. This is consistent with the liberal assertion that change is possible through gradual, socialized changes in preference. This gives a possibility for peaceful resolution of the conflict, rather than eliminating co-operative methods outright. One mechanism to prevent this ‘spring door’ from slamming involves: weakening the spring by diversifying economic assets, and ensuring conservative benefits from opening.

A second scenario of reform is one of ‘apparatchik capitalism’ (Noland, 2002). Reforms do not cause a conservative reaction or retrenchment but instead proceed along a path which ensures only elites derive the benefits of economic growth, essentially extorting rents

and beggaring the population. This is a possible scenario if one assumes the elites are purely opportunistic and commitments to communist development are only rhetorical. This view is consistent with the partial reform arguments of Hellman (1998) and Walder (2003) and also with the characterization of Eastern European elite behavior of Brezis and Schnytzer (2003). Again, the possibility of this path is shaped both internally, by elite choices and externally, by international policy responses to DPRK reform. Financial and technical aid in building DPRK institutions which enhance the redistributive and socialist aspects of North Korean society serve to reduce the effects of this rent-seeking behaviour. Though economic benefits provide elites with a mechanism of sustaining reform, and will establish (or reinforce) class distinctions in society this is not necessarily contrary to the long term goals of liberal engagers. Furthermore, a focus on enhancing the effectiveness of SOEs and giving managerial elites the tools to benefit *within* the current system minimizes the attractiveness of systemic pillage, and can help ameliorate the short-term costs to the broader population.

The first scenario provides little role for the international community other than containing North Korea, and hoping for its internal collapse as predicted in the work of Eberstadt (2004) Noland (2003) and Oh-Hassig (2005). The second, however, produces a set of options, ranging on a spectrum from trade and aid, to institution building and exchange. The latter may help mitigate the negative effects of transition, such as corruption and rent-seeking, while still providing a vehicle for peaceful transformation (Smith, 2005; Babson, 2003). The resulting acceptance of change, and policy flexibility, is a powerful argument for engaging North Korea.

OBSTACLES TO REFORM

Despite the many factors which facilitate a North Korean transition along the Vietnamese lines there are three very important differences between the states that may significantly retard the progress of reform: nuclear proliferation, South Korean development, and a large industrial sector¹¹. It is not included in this section as it has not had a significant impact on South Korea's economic development, or China's. Thus, it does not seem to present impediment to reform. It may, however, prove detrimental to governance and equal access to wealth for the broader population. Party structure and elite ideology are two other factors proposed by Eberstadt (2001, 2004) and Cha (2004). Chapter One demonstrated that ideological commitment to central planning has been eroding under Kim Jong Il, and is supported by generational changes. Furthermore, party structure, far from presenting a challenge to reform, seems to provide a mechanism for deepening them under the control of 'moderate' Kim Jong Il (Mansurov, 2004; Kang, 2004).

The most obvious impediment to reform in the DPRK is nuclear proliferation. The regime's attachment to 'military first' politics isolates North Korea from the bulk of international aid, both through bilateral and multilateral sources. Furthermore, continued hostilities with Washington serve to keep the focus squarely on the military aspects of the Korean crisis. This diverts resources from humanitarian concerns both domestically and internationally. Without a comprehensive agreement which de-nuclearizes North Korea, it is difficult to imagine the state receiving the level of support needed to renovate its economy substantially or sustainably. While China and South Korea seem willing currently to provide aid unconditionally (Kahler and Kastner, 2005) this cannot be counted on indefinitely. The

¹¹ A potential fourth relates to the culture of familial nepotism which pervades North Korean culture. This characteristic is also found in literature looking at economic cultures in South Korea and China (Woo-Cummings, 1999).

complexifying factor here is that both economic and military security issues in North Korea are interlinked. Animosity between Pyongyang and Washington serves to strengthen the position of hardliners in both countries, conversely undermining reform efforts. It is not the focus of this thesis to address this important issue, save to point out that significant progress in economic reform will be predicated on a nuclear settlement. This is particularly true with reference to the participation of IFIs.

The second and third obstacles are often referred to as potential challenges to reform because they could affect progress either way, depending on the commentator (Noland, 2001). The presence of a highly developed South Korea could be either a boon to reformers in the North as described in previous sections, or a destabilizing element. In the latter scenario the ‘lure’ of South Korea could prove a threat to DPRK elites afraid of competition from the South (Eberstadt, 2003). Marcus Noland asks (2003) why people would choose to be third-class citizens in the North if they could just move South to a higher level of development. Furthermore, elites in the North may fear being ‘swallowed up’ by the capitalist South, losing both political and economic power in this new system. It seems far more likely, given that inter-Korean relations have been reshaped substantially in the last decade, that the South will include political concessions to the North ensuring their continued territorial sovereignty. In a perusal of the Korean National Institute of Unification publications one finds no mention of either agreements to facilitate immigration of North Koreans *or* forcible unification.

Finally, North Korea was significantly more industrialized than either Vietnam or China. This is an opportunity as presented here in terms of generating higher profits for exporting industries, but it poses a challenge in achieving both agricultural self sufficiency and developing along the Vietnamese model. Whereas China and Vietnam began their reforms

with agricultural reform, and positive results, North Korea has a far greater need for capital infusion to industry. Agricultural reforms in and of themselves are not sufficient in the North Korean case to jumpstart the economy. Without significant restructuring in the industrial sector through SOE reforms, infrastructural renovation, and training programs the changes of North Korea proceeding along the Vietnamese path are unlikely. And again, as noted by Babson (2003) industrial reforms will require the aid and know-how not only of willing South Koreans and Chinese, but also from other, wealthier, members of the international community.

Conclusion: The Future of Reform

"Things are not what they used to be in the 1960s. So no one should follow the way people used to do things in the past... We should make constant efforts to renew the landscape to replace the one which was formed in the past, to meet the requirements of a new era."

Kim Jong-Il (2001)

The world is changing swiftly for North Koreans; enemies are now friends and the ideological clarity of the communist project has become cloudy in the haze of transitions.

Change is taking place, but the road ahead for North Korea is not a simple or a clear one. Not only does it continue to be embroiled in a half-century of military conflict, but economically the country cannot sustain itself. A continued path of aid dependence carries with it the likely danger of donor fatigue, as well as a clear contradiction with deeply rooted Juche ideology.

Future policies aimed at encouraging development and sustainable growth through transition in the 'hermit kingdom' will need to respect the current regime's understandable insecurity and lack of experience with market based mechanisms of growth. The interconnections between both economic and security crises on the peninsula highlight the extreme importance of developing strong durable multilateral communication forums. Only with policies that are locally generated, implemented and cognizant of North Korea's unique conditions will sustainable growth and reduced conflict be possible.

Despite Eberstadt's claim that "North Korean doctrine remains implacably hostile to 'globalization', a tendency Pyongyang continues to describe as 'a nefarious crime against humanity' (2002:32)" there is a significant body of evidence cited in this thesis to suggest the contrary. This is based on a combination of: significant shifts in high-level policy statements of DPRK officials, the increased volume of transition studies focusing on China, and Vietnam, as well as domestic reforms that support market development and export zones. Analysis of politics within North Korea suggests that key actors in the political system, namely the

Suryong himself, are driving these economic reforms (Mansurov, 2004). Hazel Smith articulates this position: "After initial reservations, the government has now fully accepted that it can only revive and resuscitate its economy with the help of investment from liberal capitalist institutions such as the World Bank and the Asian Development Bank." She goes on to suggest that "by promoting economic institutions based on transparency, accountability and the rule of law, foreign governments and institutions would thereby promote a process of institutional transformation" (2004:45). The Pyongyang regime's receptiveness to these changes is a crucial element in the theorized path of liberal engagers.

The effect of market reforms on the peninsula will depend significantly on whether the international community chooses to play an informed and constructive role, as it did for Vietnam and China. Policy toward the DPRK is schizophrenic, not because of empirical disagreements, but due to ideologically-conditioned prescriptions for change. Liberal engagers see an opportunity for North Korea to be integrated slowly into international institutions. Realists like Eberstadt (1999, 2004) and Noland (2002) point to the opposite, a regime implacably hostile and unable to change. If Leipziger (2004) and Babson (2001, 2003) are correct, economic exchange with the 'capitalist' world can in fact benefit DPRK elites more than harm them, and thus be a rational policy shift. Integration of liberalisms focus on gradual societal change with transition theory's mechanisms of elite power retention provides an alternative policy course for the peninsula from containment. With this, elites can ensure their positions through privileged control over state assets as described in the partial reform theories of Hellman (1998) and Walder (2004). This would allow North Korea, like Vietnam and China before it, to engage in international co-operation economically and diplomatically before full resolution of the security crisis. Established networks may then be used as a vehicle for

dialogue on security issues, and a precedent set for mutually beneficial relationships.

Relegating negotiations solely to the Six Party Talks and military security places interaction with Pyongyang in a zero-sum framework, making failure *more* probable. If reform is packaged with denuclearization or political change failure in one area affects all, preventing any changes.

There are two main conclusions from this thesis that support the gradualist, non-military liberal prescriptions. First, political regime change does not always accompany economic transformations, as evidenced in China and Vietnam. Consequently, the economic reforms initiated will not necessarily cause a ‘big bang’ transformation or the fall of Pyongyang’s regime. The regime’s resilience has been established and will control North Korea for the foreseeable future. This reality requires policy that improves security in a Kim-centric, long term scenario, which the realists cannot provide. Sequencing regime change prior to economic engagement thus privileges a military solution on the peninsula (Kang, 2004). Second, the realist’s containment and isolation option has not produced regime change on the peninsula, nor an improvement in the security situation. By contrast, since South Korea’s policy shift and the 2000 summit there has been a high degree of economic cooperation between the two states and a significant reduction in mutual threat perceptions (Kang, 2004; Blieker, 2005; Gurkov, 2002). The ‘optimism’ evidenced by liberal engagers is empirically grounded in previous ‘gradual’ transformations, as well as the recent history between the two Koreas since Kim Dae Jung. States can change, as can elite interests and longstanding relationships of conflict.

The transition and reform experiences of China and Vietnam continue, and have changed theoretical work on transitions and political economy. Reforms continue to deepen,

but in a long, gradual process that has now endured over thirty years in both countries. This suggests the ‘uncontrollable’ process of liberalization, carefully sequenced, is malleable enough to provide short term-elite gains and delay political change for the future. Time is an often understudied element which gives elites and states the opportunity to adjust, and moreover, change their place in the international system (Pierson, 2004). For realists North Korea is unable to change. Interests are fixed at power maximization, and generational and structural shifts are unexamined. However, in the case of the DPRK they are a vital element propelling reform. Thus, a focus on engagement and non-traditional security methods is in a unique place to leverage these shifts.

The role for policymakers in international institutions is two-fold. First, in the long-term, policies must aim at developing credible economic institutions and requisite knowledge for managing the transition. North Korean elites and bureaucrats will need a great deal of training and support in order to facilitate market-oriented developments that do not erode the already tenuous support of the population. As inequality rises, as evidenced in other transitions, so too does the opportunity for corrupt behavior and rent-seeking activity. Smith suggests that “if external capital transfers are accompanied by technical assistance for institution-building, it may be possible for the newly emergent market mechanism to flourish without degenerating into gangster capitalism” (2005:11). Without such institutional capacity, there is a real danger of domestic economic instability as large groups become economically marginalized, and also of reform failure from a lack of credibility and ability to attract investment. Both would be detrimental not only for North Korean people but in the long term also for elites and neighboring states in Northeast Asia.

Before IFIs can play a significant role in aiding in the reconstruction of North Korea's economy, major donor countries in Asia, Europe and the US must aim to engage, rather than contain the DPRK. Such policies could include, but are not limited to: policy summits, academic and diplomatic exchanges, technical exchanges as well as security guarantees. The latter is controversial only in the context of the current administrations in the US and Japan, and, realistically, is unlikely to change soon in either. Policies either ignoring North Korea, or hoping the regime there will be regime collapse are unsupported by the empirical data presented here. The country has withstood many crises before this and Oh, Hassig, and Mansurov's evidence (2004) in Chapter One demonstrates its continued strength.

The results of North Korea's economic reforms are uncertain. While they may, as liberals predict, provide an alternate path to collapse or military conflict on the peninsula they are accompanied by problems of 'gangster capitalism' and increased inequality (Smith, 2005; Weingartner, 2004). Without international aid and expertise these challenges, and their resulting security threats to the people of North Korea, will be exacerbated. Prescriptions from realist theory advocating regime change in the DPRK cannot mitigate these threats, or guarantee the security of the North Korean populace. Nor can they provide a policy for peaceful resolution of the conflict. Instead, we are locked in a zero-sum framework of conflict. Realist theory, by focusing solely on military security and conflict, ignores the powerful effects that economic gains and cooperation have on state elites. Hence, liberal engagement theory provides a better alternative to North Korean policy. Within this framework, gradual elite-led change can be conceptualized, and encouraged. Such a system may not be ideal in the short-term, but the alternatives – collapse or war – are worse. A collapse of DPRK attempts to reform could create yet another humanitarian catastrophe; and it might result in increased and

desperate attempts to make money by trading arms, drugs, falsified currency, and so forth. A failure of the proponents of an economic, (i.e., civil) attempt to ensure regime security and prosperity might result in effectively strengthening the role of the military in domestic politics and a greater likeliness of an armed conflict in the region. The latter would certainly mean the end of North Korea, and huge material and human cost to the region.

In the short-run “priority should be given to activities that can lay the foundation for a shift from humanitarian to development assistance, mobilization of both domestic and foreign resources for investment, and expanded trade for North Korea. Education and training will be the essential first step” (Babson, 2001:3). Three other initiatives need implementation. First, provide food aid to ensure a basic supply until domestic resources can be harnessed to produce its own. Distribution should be organized in a way that it is equitable to maintain social stability. Second, provide capital to help state owned enterprises actually follow the reform path set for them, rather than setting them up for failure. Third, facilitate technical training in the fields of economics, finance, and other areas with which the country requests help.

Future comparative analysis necessitates a great deal more detailed research than attempted here. It will also require an integration of the many scholars and policymakers also working outside the bounds of traditional security concerns in North Korea: those working for NGOs, IFIs, and in foreign ministries searching for paths to a win-win settlement to this conflict. The sociological and political effects of transition, in addition to the economic ones, deserve special attention. Ideally, this would involve ground level research on whether elites are profiting from the current reforms, and whether they are also receiving broad based support, as in Vietnam. This thesis would also suggest that more diplomatic and cultural exchanges with

DPRK elites, from a broad range of donor states, are also important. This is a historical chance that cannot be missed.

The North Korean security crisis is deeply interlinked to the politico-economic changes that have taken place on the peninsula since the end of the Korean War *in addition* to the military threats. Consequently, both are important to its resolution. Examining the possibilities of reform in a comparative context illuminates a path for further inquiry and policy steps for interested groups. North Korea is a unique and fascinating country and deserves careful study in its own right. However, it shares with Vietnam the ‘long march’ of small countries attempting to navigate a post-cold war era of economic integration. This is no minor challenge, particularly for states with tenuous international footing and political cultures wedded to independent nationalist struggle¹².

There is a precedent for North Korea’s reform path in Vietnam- one that provides us with a wider set of theoretical possibilities than those focused on a snapshot of the nuclear crisis. State-owned enterprise control, political cohesion through the retention of media control, key appointments and finally international co-operation are all key elements of the process that may play a role in providing a ‘soft landing’ for the DPRK. Theoretically, liberal prescriptions are better able to account for change and reform in North Korea, as well as provide a non-military solution to the crisis. With this, policymakers have a clear set of next steps set out by Babson (2001, 2003). The paths of China and Vietnam to date seem to support Montesquieu’s liberal claim that “the natural effect of commerce is to lead to peace” (1952:14) as neither has engaged in a major war since their reforms in the 1980’s. Security tensions are too great to simply ignore these alternate methods of communication and co-operation. Though we may

¹² Cuba comes to mind as another state which shares many of the same historical characteristics with these two countries and would also provide a fascinating path for future comparative research.

not agree with the ultimate path chosen by elites in the DPRK, it is theirs to choose. The question left to those in the international community is which path we wish to pave.

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